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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO NATIONAL COMPETITION POLICY REFORMS

MR G. BANKS, Chairman
MR P. WEICKHARDT, Commissioner

TRANSCRIPT OF PROCEEDINGS

AT PERTH ON MONDAY, 20 DECEMBER 2004, AT 10.06 AM

Continued from 14/12/04 in Canberra

MR BANKS: Good morning, ladies and gentlemen. Welcome to the public hearings of the Productivity Commission's review of national competition policy reforms. My name is Gary Banks. I'm chairman of the Productivity Commission. The commissioners assisting me on the inquiry are Philip Weickhardt on my left and Robert Fitzgerald. Unfortunately, Robert has had to undergo some surgery in recent times and isn't able to participate in the hearings, but he'll be back on deck in early January.

The purpose of the hearings is to provide those who have an interest in the inquiry with the opportunity to present submissions and respond, in particular, to the commission's discussion draft, which was released on 27 October. Thus far we've had hearings in Sydney, Melbourne and Canberra. We had hearings scheduled for Toowoomba in Queensland but unfortunately, due to lack of interest, we had to cancel those hearings. After these hearings in Perth we'll proceed to finalise our report to government, which is due by the end of February. That's in two months' time, unfortunately, not 14 months' time.

The public hearings allow anyone to have a say in person on the issues under consideration, and for others to listen to those remarks and respond if they wish. We keep the hearings as informal as possible but the act does require that people be truthful in their remarks, and a transcript is made of the proceedings, which we place on the commission's web site, and hard copies of the transcript are also available if people make a request for them.

I'd remind participants for the record that all submissions need to be in by the end of the year to allow us to draw on the matter quickly in working through our final report. I should also take the opportunity to thank those participants who have assisted us thus far in the inquiry.

I'd now like to welcome our first participants here this morning, the Western Australian Farmers Federation. Welcome to the hearings. Could I ask you please to give your names and positions.

MR HARDWICK: Ross Hardwick, executive officer.

MR BLIGH: Peter Bligh, general executive and portfolio holder for economics and farm business.

MR BANKS: Thank you for taking the trouble to attend this morning and also for the two submissions you've made, one back in June and one in response to the discussion draft, which we received on Friday, or my colleague and I received first thing this morning. I'll give you the opportunity to go through the key points.

MR HARDWICK: Thank you for the chance to actually present directly to the

hearing, and I congratulate you for shifting it from Toowoomba to Perth, because what we find with a lot of particularly economic analysis is that there always seems to be an eastern states centric placed on a lot of these inquiries, and we would dearly like to see Western Australia - while we think it's reasonably unique, it actually has some attributes that tend not to be taken into account. I'd just like, for the commission, to say our president, Trevor, has now turned up.

MR BANKS: Perhaps you could just give your name for the record, thanks.

MR DE LANDGRAFFT: Yes, it's Trevor de Landgrafft. I'm president of the WA Farmers Federation. I've just had the house and the car broken into over the weekend so I'm just dealing with that. Sorry.

MR BANKS: Sorry. I know exactly what you're going through, so thanks very much for turning up. We're just really giving you the opportunity to go through the key points in your submission.

MR HARDWICK: From the point of view of the draft document, I find that extremely well put together and it is starting to indicate that the commission is taking on board a lot of what's really happening in the economic - both domestic and global - marketplace that Australia actually deals in. From the point of view of primary industry, we find it quite intriguing that most of the Productivity Commission's analysis, and particularly the competition policy, deals with the marketplace as if every component or every aspect of the market is basically a free market and people are price-setters.

Our principal, I think, contention or point of difference is that primary industry, particularly broadacre, from which we speak from a lot of experience, but also the intensive industries, are price-takers; albeit the dairy industry, while there was a controlled market there and some degree of price setting, with the deregulation that's taken place, while it was meant to fix up a lot of the structural issues that were pertaining in the dairy industry, the manner in which they've done that has actually exacerbated the producers' position as a price-taker, and particularly in WA has actually caused a whole lot of disruption.

The point that we'd make about the levy that was raised to assist with the adjustment process is viewed as a cost by processors, and is seen to be recoverable from either the consumer or the supplier, and in this sense, particularly in WA, it's actually seen as a cost that's being recoverable from the producer. Also, to the extent that we really only have two and a half processors in WA, and if the Fonterra issue goes through, really in effect there's only one actual processor, that makes it extremely difficult to compete. Given that, yes, the fresh milk market is quite constrained in WA and the wholesale market or process market is more export orientated, so there are some issues there.

From the point of view of the actual competition policy as we see it, and your key points on the way ahead, we would like the commission to - well, at this stage and reading the draft report, we note that there is recognition of the triple bottom line but we'd like to see a lot more emphasis placed on some objective material, particularly within the social and the environmental dimension.

It's quite intriguing that the CSIRO have only just released, in June this year, a paper that starts to look at the social and environmental aspects in a true economic form. I find it quite intriguing that this hasn't been done some five to six years ago, instead of just the straight input-output economics that is normally utilised. I've touched on the dairy industry. The way I've actually addressed this is probably to look at each of the chapters and made a brief response to the chapter. From the point of view of Australia's recent economic performance and the role of the NCP, we still can't see a proper recognition of the export economy and the fact that that export economy we're dealing into, from a global point of view, is actually highly corrupted.

By "corrupted", I don't mean in a fraudulent manner but corrupted from the point of view of the definition of the marketplace, in particular with the various forms of subsidies and tariffs and other barriers that are placed by individual governments around the world - not to say also that there are some intriguing marketing cartels that purvey around the global scene. In that context, because of our point that primary industry is the price-taker, the cost-price squeeze is extremely evident in primary industry in WA and it was further highlighted in Rabobank's rural confidence survey which put, as its second highest factor impacting business over the next 12 months, rising input costs; then followed by low commodity prices.

So this issue - the triangle of input prices, commodity prices and seasonal conditions - it would be nice if we could actually control any one of those. In an export market, given that we have no control over any of those, for primary industry and its various sectors to maintain a profitable, sustainable and productive environment one of those attributes has to what we call have a break-out in the next couple of years. Livestock prices have had a break-out in the last couple of years. When I say "break-out", they're actually receiving what we contend is a reasonable value for their product and that has allowed the livestock industries to get on a stronger footing, particularly the meat sector.

From the point of view of grains, unless the world starts to pay what they're truly worth, it's going to be an interesting time in the next four to five years, just to see what happens with the grains industry. From the point of view of the chapter on prices, service, quality and government business performance, the issue of statutory marketing authority and their changes, we do make the point that as to statutory marketing authorities, they did need to have a lot of structural change and we make the point, particularly from an export point of view, that we see orderly marketing;

we see that orderly marketing being conducted in a commercial manner as being the way forward for primary industry to deal on an export market.

When we made our submission to the Grains Licensing Authority the point was made that orderly marketing and statutory marketing authority are the same thing, and we contend that they're not because of the checks and controls that do exist if you have transparency from orderly marketing in a commercial manner.

MR WEICKHARDT: You're going to have to enlarge on that. I'm not sure I understand the point you're trying to make.

MR HARDWICK: The point I'm trying to make is the difference between commercialised orderly marketing on an export arena compared to a statutory marketing authority. While under the current legislation it would effectively have to be deemed to be a statutory marketing authority, we see it as one that is not. The product, if it's done from a cooperative point of view on the one hand - because each time, we look at the issue of how can primary producers move towards a price-setting arena each time the debate turns around to orderly or cooperative marketing.

Whether you call that statutory marketing or whether it's legislative, against and for, I don't know. I think there's still a fair bit of debate that has to go on around that and while we don't need to go down the road of AWB single desk and the separation of marketing from a commercial point of view, as to the accumulation of the grain, I think there's still a fair degree of debate that needs to be held around those issues. Just as recently as a couple of weeks ago, we had a workshop in WA dealing with environmental management systems and the uptake of that by primary industry. One of the questions we were asked was, "Who is going to pay?"

There were quite a few people in that room, in that group that was debating that issue of servicing agriculture, and the only way they could see it at the end of the day, apart from government paying, was that farmers had to get together and market their product cooperatively. What form you see that in, I don't know. I think a clear indication is the Capper-Volstead Act of the US. That has been around since 1922 and has been further strengthened through their legislative process as late as a couple of years ago - further strengthened for primary industry, in the US, to compete in an export market.

MR BLIGH: Sorry, Ross, I just wanted to make a point. I think part of the distinction you are trying to make here is the distinction between orderly marketing and disorderly marketing. In a free enterprise type system, where you have lots of sellers, you may not necessarily have lots of buyers, and a free enterprise could become disorderly marketing, whereas a statutory or semi-statutory system could be orderly marketing. Something that helps us maintain our true bottom line is more of

an orderly system. Now, that will vary in time and in place; it's what system that takes. We have pressure put on us on only one aspect of it. On the economic aspect, it can throw us out altogether. Does that help to make yourself a little bit clearer?

MR WEICKHARDT: I think I understand what you are saying and we will talk about this more in the discussion. Moving many of these products to a price-making situation, quite frankly, I'd say, from years in the commercial world, is a dream in most cases. There are a few times in commodity cycles when you are a price-maker but I think the reality of life is that in most of these commodities most sellers are price-takers. That's the way of the market.

MR DE LANDGRAFFT: Perhaps I can add something there as well. I think everyone agrees that the ideal is to have a totally free market, but of course I think our argument is saying that agriculture struggles with that, particularly when it comes to export and particularly as you look at this particular policy, which has a beneficiary essentially being the consumer. Sometimes the consumer, of course, in export, is actually overseas and that's where we struggle in having a policy that really takes us down the path of giving a consumer a good deal, but it's the margin of the producers that really needs to be protected.

Even on the domestic front we could play a freer role in the free market, should we be able to turn off our production, but that's where agriculture is stuck. Agriculture cannot turn off its production as a response. In fact a classical response to poor commodity prices, from a farming point of view, is actually to increase production. It's absolutely counter to the economic principle under which we are driving and the competition policy really takes us down that path. We struggle to adjust.

So some control of supply, which is derived from orderly marketing, becomes our instrument to giving us some stability to be able to afford the triple bottom line that everyone is making us do; that is, to be able to invest back into our communities, which are just shrinking of course and struggling for services through the demand that we can't give, and maintain our profitability overall.

I think that's probably one of the key factors: your ability to turn off production. Even if it was a six-month lag it would be fine, perhaps, but a farmer sets up his production regime many years in advance, particularly the dairy industry. He has to milk daily. He is in a very vulnerable position. Of course that's why some form of supply control is important. Nevertheless, the same applies when you've got animals that have to be bred well out in advance to produce something, but crops as well, sown well in advance. There is little other way of diversifying.

MR BLIGH: The Capper-Volstead Act, are you familiar with that?

MR DE LANDGRAFFT: No.

MR BLIGH: It's an act of the American Congress, sponsored by the two gentlemen in question in 1922. It was to get around antitrust legislation that was put into place to stop monopolies, duopolies, oligopolies from controlling the market. It was to allow, in this case, the producers to act as a cooperative, to get around the antitrust legislation, which was put in place to stop collusion. That's what we were referring to.

MR BANKS: That sort of leads me to a point that's made in the submission in relation to producers' negotiating power with dealing with the processors, which you raised before. You then say:

The collective bargaining authorisation granted to the dairy industry does not sufficiently address the issue.

I just thought I would give you the opportunity to elaborate on that.

MR HARDWICK: The one that was handed down just over 12 months ago said, "Yes, you could collectively bargain as long as you don't have 100 per cent of the producers in that one collective bargaining unit." I can understand the rhetoric behind it, but given the size of the WA dairy industry, it was some 400 dairy producers and it's now down to something like 300 and one or two processors. The theory is not practical in this particular sense, that is the point. At the moment - I don't know whether you are aware - they are working their way through a cooperative production supply.

MR DE LANDGRAFFT: Yes, a supply cooperative.

MR HARDWICK: A supply cooperative that would negotiate on behalf of the producers, with the processors. That's going through its formative and structural set-up at the moment.

MR DE LANDGRAFFT: The other side that we find happening: when you do deregulate you end up replacing whatever, I guess, was the monopoly. Perhaps it was a little inefficient too but nevertheless it was there doing a task. What you tend to replace them with are very powerful - either duopolies, which are not monopolies because they are not illegal; it's a bit like the supermarket situation in Australia. Essentially, they tend to dictate what happens with food production in Australia. They tend to set the price and so they have become very powerful, whereas when you look at what our competitors do and if we go to the United States - I mean, look

at their antitrust laws. Of course the biggest supermarket in the United States only commands some 18 per cent of the market, whereas of course Coles and Woolies are probably at least 30 per cent each; so we've ended up out of competition policy with probably some good results but, of course, we've had some terrible ones as well, whereas actually it has resulted in some people being in a worse-off position.

Even the banking industry which of course has been touted to be one of the areas where even where a farmer's struggle with the complexities and being a price-taker - even in banking we're supposed to perhaps have got some benefit there and so it's okay. But if you look at banking, that's continued to consolidate into very strong organisations. Realistically, considering the economy of Australia, we should be having something closer to world prices for borrowing than we do. We're quite a bit above it.

Now, you can argue that perhaps the other nations who have got lower interest rates are struggling. I don't know. But if we look at our competitors - and once again to the US - their interest rates are considerably less than ours. So whilst they obviously have a good free enterprise system their checks and balances, through things like the antitrust rules and the Capper-Volstead Act, are certainly enabling them to have an outcome which does allow much more competition in the market rather than where we're tending to find that we're getting huge consolidation in those areas. Of course they in themselves, whilst they probably don't collude, certainly have that effect.

MR BANKS: Where you're talking about Coles and Woolworths, is your concern there mainly their monopsony power rather than any monopoly power they'd exercise against consumers, or are you saying that consumers are paying excessively high prices?

MR DE LANDGRAFFT: No, I think consumers actually do very well under the current duopoly. Of course as suppliers of food to those markets because they are so competitive, the two of them, and we are restricted in what we can do we are finding that our margins are getting squeezed. We are paying for that competition. At the end of the day a litre of milk - it wouldn't worry a consumer all that much whether he paid \$2 or \$2.50 or even \$3. It wouldn't matter. It wouldn't alter his buying patterns - nor a loaf of bread.

They are essentials but they become items that the supermarkets use to get people into the store; they're attractive. People will buy them cheaper if they can but they won't stop buying them if they're a bit dearer. But of course in order to achieve that it's the primary producer - we'll only get one-hundredth of the retail price associated with many of these things like bread. You know, our margin is continuing. The cost-price squeeze on agriculture is continuing. Our costs continue to rise. Our real prices continue to fall.

That's the struggle agriculture has. Competition policy of course bringing in its policies puts us often in a worse position and so we struggle. I think that's where our main appeal to the Productivity Commission is; in giving some kind of allowance. We recognise that other countries do it. The US is a classic.

MR BLIGH: I think what Trevor is saying there is that the demand equation from the suppliers - that's us - to the supermarkets is very elastic but the demand at the other end for, say, milk and bread as staples is very inelastic. So you've got two systems there that aren't quite jelling together, if you know what I mean.

MR HARDWICK: But to further elaborate on that the food value chain, particularly in South-East Asia and Europe, the big food buyers now - and we had a paper presented by Metro the other day that indicated they're now starting to recognise that if the producer is not profitable they're not going to have a food supply. Now, whether that was a throwaway line, I don't know. But for that to come into play it's going to be a long time, particularly in Australia, before a wholesaler-retailer - the people further into the value service chain - before they start ensuring that their producer is getting a profitable margin.

Now, that may be if your producers - whether they are in regional groupings or product groupings - can actually command a margin, because while you've got many and given the corporatisation of farming and its failure to date and the fact that family farms in their various sizes will tend to be the main operating unit of agriculture, particularly in WA - you know, to look at agriculture and think that in 10 years' time there is only going to be - what is it now, 80-odd thousand producers - that there are only going to be four or five thousand producers, operators in agriculture in another 20 or 30 years' time. I don't know. I just don't see it happening. The way the current competition policy operates is that unless the economies of scale start to improve the pure market theory will not work.

MR BANKS: Have we seen though in farming generally - I mean, there has been pretty high productivity performance I think in farming just to survive on world markets, whether corrupted or not; even on clean markets, I guess. We've seen part of that as being aggregation. But that's not something that's really happened for just a few years.

MR HARDWICK: No, it's been going on for 20 or 30 years. All I'm saying is it's starting to get to a level now where further aggregation is going to cause structural damage to the decision-making of the operation.

MR DE LANDGRAFFT: Even from a productivity point of view certainly we've reached a plateau at the moment where most farmers are wondering where the next advance is going to come from that actually takes them to the next step to be able to

compete, because you're quite right: productivity increases in agriculture have kept us in business. If you look at the squeeze that has been on us from the cost-price squeeze, we wouldn't have survived otherwise. But where does it come from? Of course our response, and this goes back to my earlier comment - we respond with poor prices through extra production if we can do it, but of course that obviously exacerbates the supply which of course has a greater depression on our price, so some form of orderly entering of the products onto the markets is more desirable.

MR HARDWICK: And that's where our more detailed component of our submission to the Grain Licensing Authority talks about crop shaping, because the whole primary industry is shifting from a commodity to very specific product and specialisation and intensification. In doing that, this is where the marketing body helps to shape through various price mechanisms, whether it be discounting or premiums, for specific product. How that's going to play out - well, we're starting to see how it's played out, particularly with the grains industry where grain producers are getting very precise in what they're pushing for now.

Mind you, they're still grappling with the whole climatic issue and what that can do to you. You know, all the best laid plans - again, this is where we make the difference between a normal manufacturing secondary industry where they, other than the normal market issues of getting people to physically buy your product, they're not having to deal with the vagaries of climatic conditions. They can also, if they so wish, shift their premises where they operate from. Again, the difference between primary industry where, yes, that geographical area or that piece of land particularly for crop farmers and intensive agriculture, you can't just pick it up and shift it somewhere. We don't see those aspects of agriculture recognised in overt form in any of the Productivity Commission and the competition policy structures.

MR BANKS: Would it be fair to say that - I mean, the points you've described have been around forever.

MR HARDWICK: Yes, they have.

MR BANKS: In a way, part of the skill of the farmer or the farming entities is to learn how to hedge risk and to deal with these vagaries over time. I mean, one can't remove those.

MR HARDWICK: You're right. But the issue of hedging - now, hedging has been around for a very long time. The take-up of that in Australia is not occurring. There are numerous analyses of why that's not occurring because it comes down to the service industries. This whole issue of capital shift, profitability shift from the producer to the service providers is one that's continually going on to the point of the end value of a primary product; a producer is lucky to get a third.

MR DE LANDGRAFFT: I guess that ability to adjust is what it is all about and I guess that the current structures that we've got have been precisely about that, about adjusting and staying in business because I don't think over time the laws of the jungle have changed or will change. They won't. The corporate greed or personal greed will still be there. If an industry appears to be weak, an advantage will be taken over it. Our current, say, grain-marketing structures came out of that period from - going back to the world Depression where growers did, under statutory arrangements, group together to get a very good result for some, you know, 40 or 50 years; a very good result.

We're looking at now competition policy which is really honing in on those arrangements. We absolutely accept that everything must change and you must move with the times, because not all the dynamics remain the same; but the laws of the jungle stay the same, I'm quite sure. So we are finding quite a sustained attack on many of our marketing arrangements, without any real way of being able to deal with it. It will certainly make us quite vulnerable. We don't believe enough attention has been taken to adjusting it as our position in the market as a price-taker, and also accepting, as was put before, that we have the so-called corrupt marketplaces in the rest of the world and some of the systems that have been put in place to help their farmers deal with it.

Subsidisation is a classic in agriculture as how other nations around the world deal with it. That's of course talking about developed countries. Underdeveloped countries and Third World countries deal with it because they have extremely low costs of particularly labour. When we talk about labour and looking at how competition policy deals with labour in Australia, it's exempt; and the government who I guess hosted the competition policy in the first place deliberately did that. But we don't see ourselves, as farmers because we are many - not in a dissimilar place to what a worker is: not having a lot of power in the marketplace. You can't turn it off and on. Our needs are there. So this is a dispensation I think we must continue to look at in any reform of competition policy.

MR WEICKHARDT: I don't know whether you've finished your basic presentation or whether you've still got things you wanted to say?

MR HARDWICK: I think from the point of view of - we're touching on - - -

MR BANKS: We should let you, though, pick up - in case you have further points.

MR HARDWICK: I think from the social, regional and environmental impacts, the issue of businesses and households as completely separate entities - again, the family farming arrangement is predominantly the business and the household are one and the same. It's hard to see some of the arguments that are used, or the data that's put forward about, yes, the household is better off but the businesses are not. Again,

this structural - whether it be misconception or for the sake of the economic argument, to try and differentiate them; in all cities and towns, yes, you can make those distinctions but in primary industry you can't. To say that households are better off: overall they are, but when you look at it from a primary industry perspective we say that they are not.

Again energy prices: yes, broadacre farming has benefited from decreased energy prices, but that's for electricity only, whereas the biggest cost for farmers, particularly broadacre farmers, is diesel to operate the machinery. Then from the point of view of electricity, particularly in WA, we have got the high current cost of infrastructure failure. So to make the point that yes, from an energy point of view consumers are better off - I could go on from the point of view of all of the households in WA and the current push to disaggregate Western Power and the way that national energy is looked at from a national point of view. You would actually have to build another whopping great big power generation unit to account for the losses in you tried to put Western Australia into the national grid. So you can't look at energy in a national context and apply that rule to WA because unfortunately - or fortunately, whichever way you look at it - we have something called the Nullarbor Plain that separates us. Again that issue of treating Australia as a whole, or looking at things nationally: I am just reinforcing the point about the east coast centric nature and saying that that's national when it can't really be applied. It can be applied but with variations to the WA scene.

MR BANKS: But I think there is a distinction between being part of the national grid and maybe undertaking reforms which might deliver more efficient or effective services.

MR HARDWICK: True. Yes, I understand that, but unless those locally or regional differences are actually really taken into account, we find it very hard to comprehend the - look, the national good is there and, yes, it can be demonstrated, but when you look at it at that level it doesn't really unearth the real dynamics of what's going on underneath and that's why I talk about "a masking effect". Again from the point of view of rail, the rail in WA only exists for grain to port, and iron ore. In the context of grain, our distances are probably rather short, but then again we have a situation where the strategic planning is practically non-existent for road and rail and proper integration and infrastructure planning for the next 20 to 30 years.

MR BANKS: In the case of grain to port though in rail, have there been cost reductions for farmers in that area? I think another participant in WA indicated that there had been.

MR DE LANDGRAFFT: Yes. Going back from a pretty high base, there were.

MR BANKS: Right.

MR DE LANDGRAFFT: Westrail was attacked with a knife and they were divested of many of the traditional systems and tasks that they had to do; pulled them back to base task, which was grain. The rationalisation resulted in reasonable price reductions, but of course now that they are back to a base no-one is maintaining the infrastructure, so what we are actually looked at is line closures now for the privately owned organisations now running Westrail to be able to survive. They can't afford the infrastructure cost to build it back up again because it was seen as a once-only, so once you do drive it to that point of competitiveness against road you find you can't maintain the infrastructure. Traditionally, of course, rail gets loans and road gets grants, so that's the difficulty we have of some sort of competition remaining in those broadacre areas, and it's going to struggle to maintain competitiveness.

MR HARDWICK: There is a fair bit of work going on with that issue in WA at the moment, but the stark fact remains that of all of our so-called narrow gauge network in WA - which is there for grain - we see the imminent or possible closure of over 50 per cent of that track network in the next two to three years. It's problematic of what that's going to do to the road infrastructure and that can only mean one thing from the point of view of actual real transport costs for grain, and that's only one way, and it's up. I know the whole issue of what are called "externalities" in road freight pricing is being looked at at the moment and again the old chestnut of user pays will come into play and, if that's the way it's going to be, again it further exacerbates the price-taking situation of grain producers and where all those issues shift: from the point of view of capital involved, where the control of that capital shifts.

Is it the producer or does it shift to the service providers to basically just say, "Because it costs us this much to provide that service, you're the producer and because you're the weakest link in the chain, we'll just charge you more," instead of saying, "Look, the consumer" - and, again, is the consumer really paying for what they're getting, given the analogy that all the consumer wants is cheap food and cheap product and the marketplace, in normal pure senses, will supply that in the most efficient manner? But our population size doesn't allow - to a great extent, that we see as how it occurred in the global context - is not really functioning.

Also, from the point of view of WA, the diversification to alternative industries: yes, it's problematic, because the grain, sheep, wool, cattle are better off at the moment given the price increase from the meat that they've received, which allows them to deal with the added impacts of drought and other events. I think this is the whole push behind our submission and work with exceptional circumstances. Instead of focusing on just interest subsidy for increased debt, it's about allowing the producer to be more prepared to deal with these events, and that comes with decision-making and planning. How do you get primary production operating off just a one-year cycle, to looking at the longer term?

MR BANKS: Just on that point, for example, in relation to dairy and the very significant adjustment that has occurred in that industry, to what extent does that involve change of land use from dairy to other either agricultural or other uses?

MR HARDWICK: Very little.

MR DE LANDGRAFFT: Of course, those farmers who are no longer in production would need to have it diversified, but essentially the production hasn't altered. We understand where government gets comfort, because the production is still there, but there's no profitability in it. It's an interesting one, because as most dairy farmers put it, the more cows you milk, the more money you lose. That's not what it should be when you look for economies of scale; so the largest producers are actually losing the most money.

MR BANKS: Yes, but they still regard that as the most profitable use of their land.

MR DE LANDGRAFFT: No, because we've lost significant numbers of them. We've lost over a third of them.

MR BANKS: But they have been sold to other dairy farmers.

MR DE LANDGRAFFT: No.

MR BANKS: You will have an opportunity to talk in a minute. I know you've got some strong views, but, please, give these people a go first.

MR DE LANDGRAFFT: They do appear to have gone out of business. I know what you're saying: say what happens in the grain industry, where one farm takes over another grain grower and the production increases or at least stays the same, and that's good for government, but that is not what appears to be occurring. That's what we're going to struggle for in dairying in Western Australia - critical mass - because you do need a critical mass that at least can supply the domestic market, but, more than that, it needs to have critical mass that can support a viable export industry because you need to have somewhere for the excess to go if you are going to try to not continue to flood or undersupply the market.

You need continuous capacity - excess of what you've got - to drive an export industry. Western Australia struggles. That's what we won't get out of a free trade agreement. Whilst we may have access to the US market, we don't have an export industry of any magnitude that can put capacity in there, so we're not really beneficial.

MR BLIGH: A couple of points we've sort of skipped over there are the water and telecommunications, and I'd add information technology in there as well. I will deal with the latter one first, telecommunications, particularly with the imminent sale of Telstra coming on us. At the moment, regional telecommunications infrastructure and services are not up to equivalent standards that you enjoy in the capital cities. Even the outer metropolitan areas are suffering. What we are hoping for - maybe not necessarily in this forum, but in other forums - is to try to get some sort of an upgrade to the equivalent capital city standard and also to be able to maintain that infrastructure.

The water one is a bit more varied. For a farmer like myself, water is something that we pump out of the ground or we rely on rainfall or dams; but there are issues there, too, in the more intensive agricultural areas, dairy included, that do have use for water.

MR HARDWICK: Just on the labour issue, based on full-time employment or otherwise, in WA it's highly seasonal and where the farmers are actually getting skilled seasonal labour, there's an extremely hard point to drive, so much so that skilled seasonal labour in WA commands quite a premium on price; those that can get it. The other thing is, it's actually driving grain producers within their own family to actually gear themselves up to not have to use labour. It's a double-edged sword. One of the things that we've been trying for quite a long time is the work visas for seasonal skilled labour to travel around the world between Canada and the UK, and some of the European countries and ourselves.

We're not having too much luck in that visa area. It's not like the fruit-picking intensive horticulture seasonal labour. This is somewhat different and they do need a high degree of skill. They're operating equipment that is turning around half a million dollars and putting the crop in, that you don't want any mistakes made on.

MR DE LANDGRAFFT: Ross, I think one of the critical dynamics about the labour supply is that as farmers are asked to rationalise and do increase the size of their organisations, obviously there is a depopulation of rural areas. The depopulation, of course, takes away with it the services that those people were able to demand. Once you start that process, you cannot get people back in, so you start to rely on seasonal labour, usually overseas labour. Of course, there's the sort of love affair, I suppose, that Australian farmers have had with the seasonal workers out of New Zealand, but that too has dried up as their economy has changed, so we relied upon overseas labour to put our crops in.

Whilst our economics is such that we are driven to the kind of rationalisation we do, we no longer can maintain a presence of workforce that's available for us to do our tasks, and the shearing industry is a classic at the moment - the shortage. The

poor profitability of shearing of course has resulted in people diversifying away from sheep. Now, you might say, "Well, so they don't need the shearers," but essentially what the wool industry did for Australia is, it supplied a workforce, because seldom do the key peak periods of labour requirement clash; usually one yields to another. So the shearing teams became the labour force for, say, the cropping and the picking industries.

I personally believe over the next 10 years the biggest problem facing most of rural Western Australia - probably Australia but certainly Western Australia - is the availability of skilled labour. We are really struggling under that now, so our productivity of course is going to struggle to be able to be maintained, and any ideas of being able to produce more to deal with the economic dictators is always going to be very, very difficult to do without labour. People are relying on family labour, but there's a limit to how large an operation you can actually run, despite machinery, et cetera, to do it, so labour is being discouraged from going into rural areas.

MR BANKS: Is there also a phenomenon in WA, that occurs in the eastern states, whereby - I mean, the point you make is right about scale of farming goes up and it becomes a less population-intensive activity in a sense, but you're also seeing a drift to the larger cities of young people who want to pursue things other than farming. Is that also compounding - - -

MR DE LANDGRAFFT: Not only farming, but it's a more desirable place to live. Each decade, society demands more, and farmers can't help but be part of society. Their children want to have the trappings of larger population centres, not only for entertainment but certainly for general standard of living. Schooling is a very serious issue in our rural areas. We have school closures all the time, and farmers having to spend very big amounts of money to send kids to Perth for schooling, and once they experience a different lifestyle they are less inclined to come back. It's quite an issue for us.

MR BANKS: Has there been a sort of sponge city phenomenon also, that you've seen in the east, where large regional centres have grown almost at the expense of - - -

MR DE LANDGRAFFT: It doesn't work in Western Australia because what we've got are some regional centres dotted up and down the coast, but realistically they are retirement centres; they're not really there to service agriculture. Esperance is probably the exception, but then again Esperance is also a coastal town. The only inland town that has managed rurally is probably a place like Northam, and Narrogin, but Northam is almost outer metropolitan now, so people commute but come to Narrogin. Narrogin is holding its own, at the expense of the towns around it, and it's probably the only example that we have.

MR BLIGH: We also have the phenomenon in Western Australia, more so than in the eastern states, where we've got a large mining industry that's also a drain on farming labour. A lot of the skills relied on, particularly in broadacre, are also highly valued in the mining industry, from managing it to working equipment, and of course they offer salaries far in excess of what we can offer, so that's a huge drain on our workforce and resources.

MR BANKS: Okay.

MR HARDWICK: The two points I'd like to make are 2.5 and 2.6, the public interest test being more area-specific and a greater weight being put on the adjustment and distributional implications and the use of financial incentives as an effective tool for change, but they should not be used in a stand-alone manner without the adjustment and distributional implications being properly integrated into that whole analysis.

Again, what we tend to find is that they are taken in isolation and we've got to start to look at things from a holistic point of view. Yes, you can break them down into integrated components, but the cross-implications are not really taken into account, and that's where we end up with what then tend to be labelled the unintended consequences.

The importance of continuing reform I think is one that we do have to carry on with, and particularly for agriculture, to world's best practice, because in some respects the removal of tariffs and those issues was probably the best thing that could have been done with agriculture, because it's put us into a stronger position to really benefit when the corrupted marketplace is finally sorted out on the world scene, and to the extent of the social, environmental and political dimensions, needs to be really taken into account. That's only just starting to occur, and we'd like to see a lot more emphasis being put on those integrated dimensional aspects.

MR BANKS: Good. Thank you.

MR BLIGH: Yes, the political dimension. One aspect of that that I'd like to mention is that, particularly in a state like Western Australia where you have this drainage from the country to the city, you thereby lose your political base in the country as the country is depopulated, and you find that the state politics tend to become very city-centric and decisions are made that are made primarily for the benefit of those people living in the cities and we tend to get neglected, particularly when it comes to infrastructure, with its roads, rail - health particularly is another one, communications - all those issues that people in the cities take for granted. We struggle to maintain a decent standard in the country because of that population drain.

MR BANKS: Thanks very much. I'm not sure that we have a lot of additional questions to ask as we've asked a number along the way.

MR WEICKHARDT: I think, bearing in mind the time, to give other people a chance we probably need to call it a day. Thank you very much.

MR BANKS: The only point I'd come back to in relation to the price-setting dimension is that I think perhaps what we've said there may have been misconstrued. We have talked about efficient prices being ones that meet efficient costs and so on, but I suppose you could argue in competitive environments, as Philip has said, inevitably there will be a limitation on your scope to set prices. It takes two to tango, as they say, and it tends to be a mixture of the supply and demand side. I guess what you're saying is you've seen a shift away from the supply side in terms of influence in recent times and that's strengthened under the NCP.

MR DE LANDGRAFFT: Yes.

MR HARDWICK: In the context of very few buyers as against many sellers. You know, from the point of view of the global marketplace, yes, there are probably half a dozen real traders in the grain marketplace, whereas just in WA alone there are something like 6000 grain producers. It's a buyer's haven to have so many sellers to deal with.

MR BANKS: Thank you very much. We'll break just for a moment before our next participants arrive.

MR BANKS: Our next participants today are the Milk Industry Liaison Committee. Welcome to the hearings. Can I ask you to give your names and positions please.

MS MARINO: Nola Marino, Milk Industry Liaison Committee.

MS FRY: Jenny Fry, secretary-treasurer of the Milk Industry Liaison Committee.

MR BANKS: Thank you very much for attending today, and also for the submission which you've made on the draft report. Perhaps you could begin just by talking a little bit about the Milk Industry Liaison Committee, or MILC, as its acronym is, and its representation and its role and so on.

MS MARINO: All right, I will do, and I'll probably just start with apologising for us getting a little excited over some of the comments. However, as you rightly put it, we are particularly passionate about this industry and about agriculture in general, and we do have strong views as a result. Jenny and I represent the Milk Industry Liaison Committee and we both have in excess of 30 years' experience and involvement in the industry itself, but probably more importantly through a wide range of industry representative roles as dairy farmers, direct dairy farmers ourselves. We are dairy farmers and community members, so we are the very real face of this. We are the working face of dairy in this state.

As I said, the Milk Industry Liaison Committee was formed in 1978. It's a group of actual Western Australian dairy farming women who believed that things needed to be done in the industry that weren't happening, so we thought, well, we'd do it ourselves. So we've had a very hands-on role in a range of ways for the last 26 years, at all levels of the industry: in voluntary promotion and marketing, in educating our members at a political level; you name it and basically we've been there. So in a hands-on way, a direct way, we've had contribution to national marketing presentations and other, and have worked extensively in the industry for the last 26 years. As importantly, our members are very directly involved in their local and regional communities, so that gives us quite a grounding for the focus on the social and regional impacts of deregulation.

So that's why we've taken the position we have, and ours in fact is a very simple presentation and as I said, quite literally and simply, we are the very real and human face of the producer sector. Ourselves, our families, our businesses and our communities are definitely part of the collateral damage of deregulation, pretty well which is so casually dismissed in the draft report, which disappointed us greatly and provokes the passion that we have. We strongly believe that you need to hear these directly from those of us who are involved, to have a greater understanding of what they are. As I said in my submission, throughout the report there are constant references to the significant negative impacts - the losses, the costs, the distributional

impacts imposed on small rural and regional communities - but the details are missing.

So we need to do these types of assessments so that we need to recognise that small rural and regional communities are important in Australia and they should be valued as part of the fabric of the nation. We need to detail exactly what those impacts were, what they are now, what they will be and how they have, are, or will be managed going forward; and even how those impacts are contributing to the demise or breaking down of those small communities. We actually need to document it, why such impacts and pressures in small regional communities are significantly exacerbated because they are small. And that's a factor that's quite often lost, because the small and concise nature of it greatly enhances the financial, the social, the physical and the environmental and cultural impacts in a small community.

I make no bones about the fact. I'm the president of the local football club. Since deregulation, we have been significantly compromised in our fundraising capacity, because it's the farmers that support us, the farmers that have underpinned us, and their income is not what it was. So they don't have the same capacity, they don't contribute in the same way to their sporting groups, the volunteer organisations; you name it, it doesn't happen at a community level. So we also need to understand and quantify the value of numbers of small businesses in small communities, and we need to also quantify and identify what the human costs to farming families and their businesses are.

Farmers have everything to lose, and we are: we're losing our jobs, our livelihoods, our properties, as we've recognised this morning. We lose our place in the community. You lose your pride and your value in yourselves as individuals. We are seeing significant losses in the quality of people's health as a result of this. We're seeing breakdown in families, and in some instances, people are losing their lives. In the last two weeks, we've had one farmer attempt suicide. Okay? So we are the real face of what's going on out there, and we need to quantify how the effects of NCP reforms are adding to other pressures in rural and regional Australia, more of which are touched on this morning; so it's compounding a lot of those effects.

We need to quantify the compounding annual costs of direct losses of those farmgate dollars and the multiplying component in small communities. There was one community did its own assessment, and they valued that dairy dollar at the farm gate to be worth \$7.50 in their small community. That's how valuable it was. We need to document how dollars generated in the dairy sector circulate directly within the local community or the region. It doesn't go a great distance, necessarily. It stays local, and it works local, and that's what makes that community work. We need to document the very clear relationship between the social needs of rural communities and their economic viability. They are like this: they go together.

We need to document as part of the review that the total reduction in milk income to dairy farmers in WA resulting from deregulation is \$24 million per annum, directly. So if you add the multiplying effect - and I know there are several models used, one which says it's a \$2 plus component in value adding, some up as high as \$4.09. That's a massive loss across regional Western Australia on an annual basis.

We need to also recognise that dairy is one of the highest value adding rural industries in WA and that the NCP has driven the dairy industry through a period of quite significant unmanaged and unplanned change and it has come at a huge cost. We need to be able to assess those impacts by having very sound and detailed reporting methodology. We need to document the public value - something that is undervalued - of farming and that includes a diversity of farm systems, the various landscapes, the culture, the traditions, the whole box and dice. It is a holistic approach and agriculture is not just one single component. We need to do this as a benchmark and reference for what may be ahead in potential further reforms.

We don't need to compound what's happening at a rural level but we need to minimise the ongoing impacts. We need to do that to ensure that prior to progressing further change, total regional cost-benefit analyses and social impact studies are conducted. These didn't happen leading up to deregulation of dairy, and it must be done by independent and objective sources, with the result of minimising negative impacts. We don't need to do this again. We need to communicate the results of such studies to stakeholders and the wider community prior to progressing further change. We must ensure more direct, efficient and targeted provision of support mechanisms when implementing change.

We must assess whether appropriate and adequate forms of rural and regional assistance have been provided to date and where additional or alternative needs may be required. We must demonstrate why transitional assistance methods are short-term bandaid measures only. In small communities this, in no way, addresses the core long-term issues of self-reliance. What we're about in community in regional Australia is being self-reliant. Let us do our job, get on with it and have a strong, vibrant community, but we need all the elements there and working to make this happen.

So we need to identify the very real costs of NCP reform by quantifying not only the farmgate dollar losses and local and regional community multiplier costs but also the costs of health care - and there have been some - social security - and there have been some of those - various support mechanism and regional assistance programs in the short, medium and longer term. So that's the background of what we felt was missing from what needed to happen in the assessment of the impacts of NCP. As you're aware from that, the Milk Industry Liaison Committee believe that

the draft report was flawed in this regard and because of the statistical and economic modelling it was not sufficiently broad enough to assess the impacts across producer, family, local and community levels.

At our level, the progression of NCP, dairy producers have been placed in an absolute price-taking position and I've heard you this morning talking about how that happens; well, it does. We are controlled by monopolies both at a retailer and processor level. Basically we need your active help now to change this position, particularly given the precarious state of the WA dairy industry. It is as serious as it gets at the farm level. There is a very real need for crisis management. Farmers have reached the end of their reserves and what I'm talking about here is their economic reserves, their ability to manage within their economic as it is now and their ability to borrow.

It's also their on-farm reserves. We've had a range of challenges on-farm and then that is constrained by their economic position going forward, and they've reached the end of their personal reserves. Basically, they've simply just had enough. They've had enough of carrying the majority of the investment risk in this industry. It sits with us. We carry the work and we carry the cost and we carry very little of the benefits. Jenny and myself, as part of the Milk Industry Liaison Committee, we deal with these people on a daily basis and we see first hand the amount of financial, physical and emotional stress they're under. It can't be dismissed.

We see a continuous and accelerating change at the producer and processor level in this state and the balance of the industry in WA is changing very, very quickly. It is currently totally underestimated, how quickly it's changing. I think one of the other things we wanted to ask was there is mention in the report of assessment of dairy change and I just wondered whether this was based on the Ridge Partners document, the Dairy Now and Then: the Australian Industry since deregulation, October 2004. Are either of you aware whether this was some of the supporting documentation for some of the dairy information contained?

MR BANKS: I think that came out after - - -

MR WEICKHARDT: That came out after - - -

MS MARINO: It came out afterwards?

MR BANKS: Yes. There was a report by ABARE as well, I think, on dairy adjustment.

MS MARINO: Yes. This one in particular was very interesting because it stated that the removal of farmgate regulation created the opportunity for retailers to take greater control of the supply chain through the exertion of competitive price pressure

and again, no measure of the effect of these changes has been undertaken at a regional level. Well, for us in the region, we're saying, why not? It should happen, it should have happened, it should be happening. If this review of NCP reforms is to be an accurate documentation of the result it has to happen, particularly in the regions where there have been such significant negative impacts like in WA.

I'd actually like to highlight a couple of comments or statements from the Ridge Partners report because it was tied in with the release of your productivity document. There was a statement on radio; I think it was David Crawford who said the gross farm income is about \$300 million per annum across Australia. But then again, the same author, in an Australian government report, Price Determination in the Australian Food Industry, said:

With the loss of regulated arrangements there is a sharp fall in farmgate price and returns.

Ridge Partners also said the consumer has been the big winner from the process of change, but the same price determination report said that average retail prices have risen. So the graphs in the same reports show that margins to both processor and retail sectors have increased at the expense of producers in that same period; that retailers have gained a \$300 million margin gain from fresh milk products, the dairy industry's loss of between \$230 million and \$300 million per annum and that processors have passed this loss onto farmers. Additionally, it states that there has been an increase in retail gross margin, an increase in processing gross margin, and a reduction in farmgate income in market milk at \$321 million somewhat offset by DSAP payments.

It gives the impression that farmers are dependent on this temporary form of payment for their viability going forward, and it's quite interesting how selective statistical economic modelling and information can be. It could equally be argued that the retailers did not pass on the gains to consumers as the report states. A total industry-weighted average price to the consumer is yet to recover to pre-2000 levels, and that price levels have steadily been restored to consumers over time.

It also noted that, despite early deregulation induced lower prices, milk products have a low-demand elasticity and milk sales remain stable, so in spite of what was originally lower prices it hasn't influenced how consumers have consumed the product at all. There have been some issues, too, in relation to processing in Western Australia, acknowledging just how it is here, and we have a processor called Harvey Fresh here - that isn't very often alluded to - and it is involved in the domestic market and it can, not assessing the full spectrum of processing in the state, distort some of the figures and the information assumptions.

There is also, as I have mentioned, a failure to recognise the rapid, rapid

change occurring in WA. The industry here is in serious decline. The volume of raw milk is falling, resulting in disadvantage to consumers in the longer term. That's a potential - a very real one. One processor has already done test trips to bring milk from interstate. There will be additional prices to consumers of putting packaged milk from interstate on supermarket shelves in the event of insufficient supply and shortages.

Producers currently have very limited options of supply, who to supply to, limited amount of buyers, and major processors have indicated time and time again in this state that they will not increase the prices paid to farmers. Collective bargaining has failed. It has failed due to the monopolistic position of processors and currently increasing numbers of producers are exiting the industry. We've heard this morning over a third and our estimation is that there are a number to go. One processor told us this week another six of their suppliers will leave before Christmas and they are 20,000 litres of milk down a day. Approximately 80 per cent of WA's milk is used domestically, which is diametrically opposed to the national average of 80 per cent being exported, so we are in quite a unique and different market position to most other states.

MR BANKS: Has the consumption of milk gone up in WA though? I thought it had gone up by 4 per cent.

MS MARINO: Marginally in line with population growth. This places WA dairy farmers directly into major retailer and processor control by having 80 per cent of the milk in this state in the domestic marketplace, so we are significantly under pressure in that regard. Prices paid to WA farmers by the major processors are remarkably similar at times, which is another issue. The farm location and transport issues are restrictive for producers in WA and, in the Ridge Partners report drought is constantly being used.

We hear this all over Australia: that drought is the reason why the dairy industry is in the position it's in and it's the major factor influencing profits to dairy farmers. Drought has not been that same influence in WA and yet returns and profits are low. In that same government price determination report the drivers of pricing are listed as deregulation of pricing and supply laws that existed at state level, farmgate wholesale and retail pricing, major retailers moving to national supply contracts in packaged milk, the existence of excess capacity in milk-packaging operation in the three major processors, coupled with increasing awareness by retailers of the cost of milk production and processing, the use of private label products at a discount from proprietary-branded products underpinned again in market share by chain retailers and, in WA, you can see by that percentage of our milk in the domestic market we are significantly impacted by this.

To demonstrate the wider understanding of these drivers recently, Terry Davis

- this is really interesting - the managing director of Coca-Cola Amatil, told a group of more than 200 fruit growers that they would not suffer the same fate as dairy farmers and they would benefit from high margins, unlike the rape and pillage of dairy farmers, who have been squeezed by low prices. He went even further, saying:

Look at the death of the dairy industry. The retailer has taken so much of their power, thanks to the growth of the private home-brand label.

With drought not being the issue in WA these factors above are clearly the drivers in this state. I think, in finishing, with the critical state of the dairy industry in WA the producer is clearly exposed as absolute price-takers in a monopolistic market with rising operating cost bases, accelerating farm exits, associated production losses and processing throughput. We certainly need your active help to bring true competition to the raw milk marketplace in the limited time frame available for the industry, given its current declining position, and that is seriously underestimated currently.

There is a real and immediate need for crisis management involving constant monitoring of changes and, as we said in our report, WA certainly needs, as do our regions, our communities, our families and our businesses, an economically, environmentally and socially sustainable dairy industry and we have no doubt that in WA that is under severe threat. Additionally, as stated in our submission, to progress any further NCP reforms without completely examining, documenting and detailing the full extent of NCP impacts, particularly on rural and regional Australia, given the experience of the dairy industry, would be an absolute travesty. Thank you for the opportunity to speak this morning.

MR BANKS: Thank you very much. I thought I might just get you to comment a little bit on some of the adjustment support that was provided in dairying because it does stand out as one of the cases where there was considerable attention given to the question of compensation and adjustment prior to the deregulation occurring and my understanding is that WA has received a more than proportionate amount of this relative to its production - almost double in fact. Any comments you might have on whether that's been helpful for farmers, or inadequate or - - -

MS MARINO: There are two schools of thought on this one, and it was very interesting at the time of deregulation that we were basically given a weighted question: do you want deregulation? Do you want the restructure package as part of deregulation? We definitely wanted two questions: (1) "Do you want deregulation?" and (2), "In the event of deregulation, do you want a restructure package?" which would have given a whole different perspective on that, and at the time there was significant adjustment required, and if you look at what's been done with that restructure package, the majority of it has been spent either on-farm and for expansion purposes or to become more efficient - one of those wonderful drivers in

deregulation, to become more efficient in the industry going forward. So that was how those supports, if you want to call them that, were used.

However, the majority converted the original, what was for loss of income, it was termed - however, it was taxed. It was a taxed item, and that has severely compromised some farmers' ability to access social security in the position they now find themselves in, because their incomes have been so significantly impacted, and the ongoing effects are continuous. So that's been an issue and it's been a negative one, and there were some schools of thought that we should have basically gone cold turkey, because in fact in a number of ways the package has been a positive in some ways and certainly negative in others, and that's very real out there now.

MR WEICKHARDT: How could it have been done better?

MS MARINO: How could it have been done better? For a start, total regional cost-benefit analyses prior, so you knew exactly what was going to happen, what the impacts would be, where they would be located. We've got a small town called Brunswick Junction. It's very small. It used to be a thriving dairy area and a healthy little community on its own. With the loss of those dairy farming families who were active - it's interesting that in a small town like Brunswick the loss of three to four really good community-minded dairy farmers has completely changed the whole face of that community. It is literally dead as a result.

Those same families - the father was the coach at the school. He used to take the kids for footy, for cricket, for hockey. They actually spent their dollars in the local store and they supported the dairy service business that's located in the town. Those families have not only exited dairy; they've exited the district. So those dollars, their involvement, the whole box and dice, has been lost to that little community. So it's a huge loss.

MR BANKS: Could I ask in that case the question I asked to the Western Australian Farmers before: what happened to those properties?

MS MARINO: And that's where I was a bit passionate, and it's interesting that it's said that a lot of those were absorbed into existing dairy businesses to make them bigger. In some instances, yes; in other instances, they've been sold to lifestyle; subdivided or gone into lifestyle properties for people from various areas who want to live on a farm or buy a little bit of land. Some of it has gone into different forms of horticulture and viticulture and into more intensive or separate forms of agriculture.

One of the interesting things you mentioned about the package, too, was that there was regional assistance provided, DRAP funding, and dairy farmers themselves could not apply for this, and for those that perhaps wanted to diversify on-farm, to

stay in dairy farming, they had that part of the business and then some additional income streams for through diversifications, they weren't eligible for that type of regional assistance funding. If you wanted to say where there was a gap, that was the gap, that existing businesses needed to be able to access that sort of funding for those sorts of purposes as well as the other businesses and potential employers in the region, so it needed to be able to offer additional opportunity to the existing business as well. I would see that as an area that could be improved. Particularly in the high-value areas where there is significant value in the land itself, you have to be able to generate significant profits in those areas as well.

MS FRY: And I just might add to that. In the area that Nola and I come from, it was a highly intensive farming area, with irrigation and water and everything. You can drive around now and hardly see an animal, so farming as we knew it has disappeared out of that area. It's just not there. And as Nola said - you know, these blocks have gone on to neighbours and things. They haven't. A lot of them are going into lifestyle.

MS MARINO: And Jenny and I, with what we do, talk about regional Australia and food production. We're going to see some real challenges in food production, and we look at these sort of reports and we look at what's happening out there and we say do the government and the policy-makers actually want Australians to have access to Australian produced food and fibre or do they want it all imported from international sources at whatever quality and standard, and do they really want it that the multinationals of this world are those that extract and maintain all of the profits from the production of food and fibre for Australians, because that's how it's really looking for us.

That's what we can see ahead of us, and if that if the intention of the progression of these sorts of policies, well, it is going to get to that. We're also active in our communities at saying, "What's the appropriate use for land and water resources?" and we're saying we need to produce good-quality food. We need to be the food bowl for Western Australia and for the rest of Australia and for Asia. We've got a huge opportunity but we've got to have the right environment to do it, so that's access to quality land, quality water and the profits that keep us in business and keep the small communities vibrant and growing. So that economic independence is what we're about.

We want to work well and we know what works in our communities. We know what is going to make us competitive and keep us very active. If you think that in about 20 to 50 years' time there will be a couple of things the world is going to want. It is going to be natural quality green-type products from areas that can produce it without undue issues in relation to any form of pollution, that clean green product. When you look at the south-west, we have access to some of the best quality water in Australia and we produce great products. Our milk in Western

Australia is some of the best quality in Australia and the world and we are really proud of what we do and we do it really well.

MS FRY: Another area - looking at the future - there are huge numbers of cattle, milk and dairy cows, going out of Australia now to China and they are going simply because the dairy producers need that cash to stay in business. So we are now exporting our industry out of Australia.

MS MARINO: 11,500 of those - 5500 in this last 12 months alone. When you consider we are down to - - -

MS FRY: That's in WA.

MS MARINO: In WA alone. When you consider we are down to under 290 dairy farmers in this state, that's why the impact of supermarkets and monopolies at that level and at a processing level are so much more compounded in our environment and why any further rationalisation that we are facing is also going to have a huge impact on us. So it's very real, it's very direct but it's not just about us as dairy farmers; it's us as part of a community, part of a region and part of a wider economy, but also how we can be part of a future that we think we've got so much to offer and the world will come to our door if we can keep doing it the best way we can in the right environment. And we want to do that.

MS FRY: Can I just ask - and the WAFF people touched on this - why has the power been given to Coles and Woolworths, where they can have 100 per cent of their market if they like, and yet in America it's only 18 per cent? Wal-Mart is now looking to come into Australia and can't get in. They are the biggest corporation in the world. They can't get any bigger in America, so they can come out here and if they want to they can get 100 per cent of the market. Why has that been allowed to happen because that's destroying retail; it's destroying everything? Yet in America they say, "No, no, you can only have 18 per cent." We've given away 100 per cent of the market to big corporations.

MR BANKS: We talked about a duopoly, so we can't have given 100 per cent away. I mean, they have each got a share of the total, and you have independent retailers who have been coming in as well. Indeed, you could argue that if Wal-Mart comes in that would give the locals a bit of extra competitive pressure as well.

MS MARINO: But that will come back to us. That will come back to us.

MR BANKS: We do have, within the Trade Practices Act, requirements - particularly in relation to mergers and so on - to avoid a substantial lessening of competition. So we do have laws in Australia as well. I guess what America has that we don't have is a huge scale - it's just such a huge market that obviously there is

more room in that market to get efficiencies with a lower proportion of the market.

A firm that has 20 per cent of the market is probably five times bigger than the biggest firm in Australia. To the extent that you can get scale economies - and scale economies are important - you can get them with a smaller share of the market in a huge market. That's part of the answer. I think the important thing, in relation to retailing, is how difficult it is for a third, or fourth, or fifth party to enter the market if the incumbents are charging too much and making excessive profits. So I think we are starting to see - - -

MS FRY: That goes back to the price that we have to take to shift our product.

MS MARINO: Gary, in the draft report there was one statement that we took unbelievable exception to, and I'm sure you've read it. I think, for one, whoever was the author of it should be made accountable for it. I would be particularly disappointed if this goes forward as part of what the commission puts its name to. This statement here that:

Additional competitive pressure on small businesses, whether in a regional or city area, or the ensuing demise of some of these businesses, should not of itself be a significant public policy concern.

We are here to tell you that in our community it is a huge, huge public policy concern, as it should be for both yourselves and for any politicians out there - all policy-makers - that small business is critical. We know it's a major employer across Australia, and that's not even including agriculture as part of that. So small business is critical and in small communities it's numbers of family farming businesses that support and actually improve the position of small business. So numbers are critical and critical mass in Western Australia, in dairy, is another issue.

That particular statement - I would hope that you guys, given that this is a draft, get hold of that statement and revise it and that you actually don't allow it to go forward because that would be, hopefully, a gross misrepresentation of what the commission believes to be entirely accurate, or in fact should be promoted as part of what you deliver.

MR BANKS: Can I say that - I mean, the context of that was talking about competitive pressure and shouldn't be of concern in itself. If you read the whole sentence - - -

MS MARINO: I did.

MR BANKS: - - - we are talking about the competitive pressure. There is the bigger question of whether public policy should be directed at stopping any business

from going out of business, or it should be creating an environment in which all businesses can do well. Some will always fail; some will come into the market. The interesting thing in small business - it's hard to get good statistics on this, by the way, but some of the statistics we have put in the report, from the Australian Bureau of Statistics, suggests that the number of small businesses has been increasing, both in metropolitan areas and in regional areas.

They won't have increased in every regional area of Australia, but again it's very hard to calibrate public policy so that every little community in Australia doesn't lose a small business. The question is, how can you ensure that the economic environment is such that businesses can prosper regardless of their size. I hear what you say about small business; it does tend to be more connected to communities than large businesses almost by definition. That is a very important social context for thinking about small business. On the other hand, as we also said in that report, when we had a round table in Wagga - and we had people from all over New South Wales and Victoria who came to that - people also said that when big businesses came to the town, suddenly they had more choice. So they were able to see from both sides - both as consumers and producers - that larger businesses sometimes are replacing high-cost small businesses that the local community itself feels aren't providing all the benefits they should be getting. So it was almost saying that it's a more complicated issue that needs to be thought about.

MS FRY: Reading those words there - - -

MS MARINO: I really think it's a statement that needs revision. If this is a draft, it's an opportunity for you guys as well.

MS FRY: Absolutely.

MR BANKS: We'll grasp that opportunity and we'll think about it. It is a draft report.

MS MARINO: I would strongly encourage you to revisit that statement because with the lack of the regional and rural information that isn't contained within that submission, that doesn't balance that type of statement. That's why the type of information that we've asked you to add to this is so important to be able to give the big picture and the big picture is missing.

MR WEICKHARDT: I understand your point entirely from a social point of view and a regional point of view. It's interesting that last year I was involved in an inquiry into the textile, clothing and footwear industry and the Western Australian Farmers Federation actually made a presentation there, saying they thought all government assistance should disappear to that industry. Despite the fact there were outworkers in Brunswick and places in the city who were having a hard time, the

Western Australian Farmers Federation say, "These costs the government are imposing on us are giving us a hard time." I guess the issue is it depends at what level the microscope is looking at a particular area. I accept your point from a social point of view. In your communities this is a very important issue and we've got to grapple with it.

MS MARINO: Absolutely. That's the need for the total regional cost-benefit analyses that weren't done prior and that haven't been done since. Even in the report there is an acknowledgment that sort of information isn't out there; it hasn't been done. I would suggest as part of national competition policy reforms they should be done. They should be done prior, they should be done during, they should be done afterwards and there should be ongoing monitoring. The impacts on small communities like our own, they don't go away overnight and they don't go away with short-term support mechanisms. The actual local economy has got to work independently. We need to be self-reliant and we need to be viable and we need to be vibrant. That's what we want to be.

MR WEICKHARDT: Going to your point about the fact that the Australian economy to a degree has got - well, your area has got a lot to offer the world in terms of clean, green products, the point I was trying to make earlier is that if you're selling commodity products you're very often at the mercy of - whether it's coal or iron ore or anything, you're very often at the mercy of world markets. However, I think there are examples in the dairy industry nationally where sellers have found niches in the market with differentiated products - - -

MS MARINO: Regional branded products. A range of things.

MR WEICKHARDT: - - - with higher value added products. The question is, is there evidence of that starting to happen in Western Australia, where consumers are actually paying premium for products that are specially targeted at their needs, whether it's images of health or special quality? That to me seems to be an area where you're going to have much greater chance of defining the prices that you sell at, compared to selling a bulk commodity.

MS MARINO: But that's only if. How does the producer in this environment, where we're in, basically, the majority in corporate hands - any profits that are going to be made aren't going to be ours; they're going to be made by others. They will use our milk product whether it's for nutraceuticals, whether it's for a raft of new products that are out and about. You can extract - I think it's 90 different components from milk and we're going to see a greater exploration and development of those going forward. But in Western Australia we are in such a position as dairy farmers that none of those profits - they haven't up until now and won't be because we're basically in corporate hands, and so those profits won't come back to the grower.

Yes, we're producing the best-quality milk in Western Australia and, yes, it has the whiteness and the qualities that Asia and others want, but the producer is basically a beggar. So, yes, we can do all those things and, yes, we need the opportunity as growers to benefit from those types of initiatives, but at the moment we've got supermarkets and processors that are in a monopoly situation. We've got the growers as price-takers with no influence and no market power. So, yes, all those things are possible and we'd love to be doing them ourselves.

MS FRY: Just going back to that, you were saying it was the DRAP money. No dairy farmer can access that. You're saying we looked at going into that, but we can't get funds - it's like the first DRAP money that went out was to a polo club in Queensland. That's where that first money went. But if we wanted to say, "All right. We need \$1 million," or, "Someone down south at Capel has just 700,000. We want to set up a little cheese something," we can't get any money as dairy farmers, even if you wanted to do it, to take the risk and get out there. The dairy industry has got no access to money. Yes, that's if you want to do it and that's a very big risk to do that. Some have but it's a big challenge.

MR BANKS: All right. Thank you very much for attending this morning.

MS FRY: Can I just make one point? It was touched on - the drift of young people going to the city and everything. The way it is at the moment for a young person to stay on the farm, in most cases there is no money there to keep him on the farm.

MS MARINO: The issue was made about the competition in the mining sector for skills. It's actually the competition also for the income. We can't compete.

MS FRY: Then they only work three days and have four days off. I know in our situation, 4.30 till 7 o'clock at night, seven days a week. That's why the drift is happening, we say. I just thought I'd make that comment. Thank you.

MR BANKS: Thank you very much. We'll just break for a moment.

MR BANKS: Our next participants are from the Pastoralists and Graziers Association of WA. Welcome to the hearings. Could I ask you to give your names and positions, please.

MR BRADLEY: Leon Bradley, chairman of the Western Graingrowers division of the PGA.

MS FIELD: Emma Field, policy director grains and economics.

MR McGILL: Gary McGill, a member of the Western Graingrowers or Grains Committee of the PGA.

MR BANKS: Thank you very much for attending today. Also you provided a submission back in June, which we found very helpful in preparing our discussion draft. I don't believe we've seen a written submission in response to the discussion draft yet?

MS FIELD: No.

MR BANKS: But we'll give you the opportunity to make the main points you want to make.

MR BRADLEY: Thanks very much. When considering how to approach this today and having seen on the Web the evidence tendered by others such as the Graingrowers Association and the Grain Exporters Association, we thought we might try a slightly different angle and bring it back to what current arrangements in the grain industry actually mean to growers. We realise that the industry consists of a lot more than wheat producers, of course, but this morning we've just got a bit of an estimate of the state's wheat yield from our fourth biggest crop ever. The harvest isn't completed but it's going to come in at about 1.64 tonnes to the hectare.

At the same time we also have got access to some gross margins for next year that have been done by a prominent firm of farm consultants in WA. With a generous projected port-delivered price for wheat next December of \$160 a tonne, which is slightly above the current market, and at a yield of 1.64 tonnes per hectare, the gross margin on wheat will be \$116 - that is, minus \$116. So the purpose of our discussion today is to demonstrate that unless we attend to some of our costs, we're running a grave risk of a series of pretty lean years in wheat growing right across Australia.

Of course, our rotation is driven by wheat although there's a lot of canola and lupins grown in the rotation. They're primarily there to assist wheat production as break crops and nitrogen contributors and that sort of thing. In most of the wheat belt particularly lupins are a dead loss. We've provided gross margins on that as

well. So what carries the whole grain industry really. We ride on the wheat's back.

MR WEICKHARDT: Can I just clarify that? Are you saying a loss of \$116 a tonne?

MR BRADLEY: Yes, minus \$116 on the gross margin.

MR WEICKHARDT: The gross margin?

MR BRADLEY: Yes. We have that actually tabulated as well. You know, we include the standard variable costs - fertiliser, sprays, fuel, oil, repairs and maintenance, seed, fungicide, insecticide, use of contract, administration, labour and interest, and an allowance for machinery depreciation. So the break-even yield at \$163 farmgate, which is considerably more than what I was just talking about at \$160 port-delivered, is 2.8 tonnes per hectare.

MR WEICKHARDT: What would be an average yield, sort of over the last 10 years?

MR MCGILL: In Australia or Western Australia?

MR WEICKHARDT: In Western Australia. I assume the figures you're talking about here are Western Australian figures, are they?

MR BRADLEY: That's right, yes. Well, it depends on the area.

MR WEICKHARDT: I'm just trying to get a comparable to your 1.64 tonnes. Is that very low?

MR BRADLEY: Yes. Well, no, it's not extremely low. For 10 years ago that would have been an average sort of crop but our production techniques have improved, so it would probably be around two tonnes; but I'm only guessing. I've just used this year's production as a guide.

MR WEICKHARDT: The thing that's most abnormal this year is the price, not the yield? I'm trying to understand what the issue is.

MR BRADLEY: Okay, it was a component of both. But we have a sensitivity analysis so you can pop in any yield you like. If you said two tonnes, which is about - if we assume that was the average, a generous average, that's minus \$52 at that price.

MR MCGILL: At 160 port.

MR BRADLEY: Out of that gross margin you have to service your taxation, your interests costs, your machinery repayments and personal drawings. So the point is that we're under quite a bit of pressure. In fact, it was the same back in 2000. We were part of the joint industry submission group that contracted CIE to make a submission to the national competition policy review. In there they estimated that if we introduced competition in delivery of services to port, there's a possible saving of \$8 in supply chain costs. CIE, using ABARE figures, said that half of the Australian grain farmers that were then currently running at a negative business profit would be back in the black if we were able to achieve those \$8 savings.

So my point is that costs post the farmgate are a very influential factor in profitability of farming. The NCP review agreed with the joint industry submission groups that these savings were achievable. Subsequently we've had Accenture and Kronos engaged by other grower groups, who have produced reports on behalf of the industry, that support and expand on the NCP findings. Unfortunately, the official response to these findings and recommendations has been to, in our view, treat them as an inconvenience rather than an opportunity for reform.

Worse: we believe it's even worse. The government, through the constitution of the Wheat Export Authority and the compromise terms of reference for the just recently completed Wheat Review Panel report, seem to be more concerned with creating a veneer of legitimacy to arrangements that they know are unacceptable than looking to the future of the industry. You might think we're overstating this, but I invite you to examine some of the proceedings of a Senate estimates committee and the Rural and Regional Transport Affairs Committee when they've actually had the Wheat Export Authority appear before them and tender evidence. You will find dissembling and prevarication and evasion that would do Sir Humphrey Appleby proud. I can quote some directly if you want to really be punished. Would you like to be punished?

MR BANKS: We've been punished a bit so far, so we could have a little bit more.

MR MCGILL: Let's make them bleed a bit more.

MR BRADLEY: Okay. I feel sorry for you. I've done this to someone else before and they didn't appreciate it.

MR BANKS: Maybe the shortened version.

MR BRADLEY: Well, no, come on, guys. You've got to take the whole lot. The chairman of the Wheat Export Authority was asked by one of the senators who took the view that it's parliament's job to ensure, having made the obligation that farmers are getting what they paid for from the Wheat Export Authority, that they should get it. They asked the Wheat Export Authority chairman, "Is that your view?"

Mr Walter replied:

Consistent with our obligations and the perspective we have of the growers as our key stakeholders, and the way in which we, I believe, make sure our expenditure is appropriate and proper in the circumstances, I certainly hope - but I do not know that it is expressly reflected in those terms in the statute - that we provide something consistent with our statutory obligations. I certainly hope that the report we provide to the growers is something which the growers are able to consider and then establish in their own minds the function of the Wheat Export Authority and its role in the overall operation of the wheat industry.

You have got to be a cleverer man than me to figure that out, but that's an indication. On another occasion in the 01-02 report, the Wheat Export Authority stated that the AWB was delivering benefits to growers of 14 to 32 dollars a tonne. When asked at a Senate estimates hearing about the accuracy of the figure, the chairman of the Wheat Export Authority said, "Oh, you can't place too much reliance on that." Since then they haven't had a go at telling us what the actual benefits are and we're paying them 22 cents a tonne levy, and we've previously paid them \$6 million to tell us exactly that; but we don't seem to be able to get it.

We conclude, along with things like that and the eight-page summary that the Wheat Review Panel has just issued out of a 360-page report, that there seems to be an official determination to keep us in the dark. I don't know whether you would agree with us or not.

MR WEICKHARDT: Do you understand why so much of that report has not been published?

MR BRADLEY: I think the real motivation is because it's inconvenient information. They don't want the facts to emerge. That's my view. For example, the Wheat Review Panel was appointed on Christmas Eve last year, just dropped in the media and I understand without due consultation with the Senate committee, who was supposed to have some input to the people who were on it. From the eight-page summary, we can see that they could have done with some more people who actually knew a bit about the grain business.

The point has been made by others - I've seen it on the Web - that we seem to be plagued by reports and reviews. Anyone attempting to interpret a Wheat Export Authority report with its pseudo-precision and its use of mesmerising measurements, benchmarks and indicators, certainly feels like they have the plague. Is this paraphernalia simply not a poor substitute for information that would be spontaneously and largely freely generated if competition and choice were allowed?

Competition and choice are prohibited allegedly on the grounds that, through its monopoly control of exports, AWB exercises market power and earns monopoly prices, but it's an irrefutable fact that there are many sellers of wheat on the world's markets.

How this unpleasant reality can be remedied by legislating that there be only one buyer of wheat in Australia is beyond us to explain. It's like responding to a leaky boat by smashing a bigger hole in it. Just to guarantee that the boat sinks, the government has then endowed these draconian powers on a private company. The privileged company does not buy our grain. It acquires its supplies for nothing. No wonder non-wheat grower shareholders like this arrangement and no wonder AWB goes to extraordinary lengths to retain its privileges.

AWB's core business, contrary to what most people would think, is not trading grain, supplying finance or supply chain management. Its core business is seeking the patronage and protection of government. It follows that a more accurate description of AWB would then be that it is a lobbying corporation with a declining financier. Its lobbying efforts - although these aren't benchmarked by the Wheat Export Authority - are also its strength. Maybe this explains why the Grains Council of Australia, AWBI directors, the Wheat Export Authority and the Wheat Review Panel have shown little inclination to attend to growers' real interests. As a consequence, growers are involuntarily indentured to AWB. We at the PGA do not think that the AWB is a kind master.

Looking at the sensitivity analysis of grain farm gross margins, which I discussed earlier, can we really afford to be cavalier about the cost, the inefficiencies, the lost opportunities, the suppression of innovation and development and investment, the lack of depth in liquidity and technical skills and the stifling of information flows when profitable wheat production is clearly in the balance? That's it.

MR BANKS: Thank you. We had a conversation with the Grains Council in Canberra and we asked for comment in relation to the pastoral deregulation that has occurred in relation to barley in WA and whether we could learn from that in relation to wheat, and were told that there weren't any lessons to draw; that they were quite different markets and different commodities and so on. I don't know whether you'd like to comment on that: whether indeed we do have some experiments going on in Australia at the moment that will allow us to draw some inferences, I guess, for what might happen with deregulation of wheat.

MR BRADLEY: I'd probably hand that over to Emma, I think. She's dying to answer that.

MR BANKS: All right.

MS FIELD: Well, I have read the NCC report, if that's what you're referring to. But things like the deepening of the cash market in Victoria and Western Australia would have huge implications in the wheat market, and especially because wheat is the main game for growers; it certainly is in Western Australia. So more cash options and a deeper market would allow them to effectively, let's say, finance more of their other crop instead of taking the loans, which a lot of them do now. It would give them more options. You would see, I would think, like Victoria, the development of different products that suit different growers; different risk factors would give a more deeper risk management tool for them to use, if that's what they needed in their business.

Another thing that would be relevant, I think - certainly it's come out in Victoria - is the different pooling options and the pool that you can use. There's a reference made in the report about the bundling of services, and that certainly occurs in the wheat pool. You essentially pay for everything, whether you kind of want it or not, and they make mention in the report that there could be a cross-subsidisation of services, and we would think that probably happens in the wheat market as well, and it is so important to our growers.

Another thing that's made comment of is the freight storage and handling area, and that comes in quite strongly in your report. Transport and infrastructure is a very big area, and again wheat is the main game; it's the biggest volume. Reform in that area, as the Kronos and Accenture report backed up, would make a huge difference to the wheat market in Western Australia and Australia-wide.

MR WEICKHARDT: Given your comments, the report that was carried out for the NCC on the deregulation of the barley market, given evidence that I understand barley growers in South Australia vote with their feet and actually are selling product across the border into Victoria because they want to take advantage of the more liberal environment there, given all those pointers and the fact that the wheat review in 2000 had found that they were struggling to find benefits to the single desk, why is it, do you think, that groups who are representing farmers, like the WA Farmers Federation and the South Australian Farmers Federation, are so adamant that the single desk is their salvation?

MR BRADLEY: I think it's a psychological thing, I think it's a crutch, where they kind of get some satisfaction out of believing we're all legally hampered. I don't believe they want to see people who might have potential in that direction develop their skills and improve and get ahead. That's certainly the consequences of the policies. The more extreme elements of those groups - and I think this particularly occurs when the Grains Council gets together - seem to be saying that they're going to have this system at any cost, just like the wool growers did in the days of the declining reserve price scheme - you know, they said, "Who cares what the cost is,

we'll all go broke believing in it," and I think we have a problem along those directions. It's the PGA's role to try and change the mind-set of farmers. We've actually got 2000 grain grower members now.

MR WEICKHARDT: Have you?

MR BRADLEY: Yes.

MR MCGILL: Yes, that's an interesting question because for many, many years it's puzzled me as to why there seems to be this abject defence of that system. I don't think you can get a clear definitive answer, because when some answer is given for that reason and you debunk it, then they shift ground to another reason. We've just experienced over the last decade a myriad of reasons why single desk is to be defended and continue to be imposed on the grains industry in Australia.

But I don't know - look, the single desk system of wheat came out of a World War II nationalising industry measure - national security measure; that's where it originated from. My personal philosophy is that wheat-growing in Australia was rather a socialistic activity, especially in those pre and post-war periods, and I think that politicians and others felt that this was a convenient way of marketing wheat, and as a consequence there have been a couple of generations of farmers that have grown up with it, there's been significant propaganda thrown at farmers over time by vested interests - that is, all the statutory marketing authorities that proliferated in Australia - and agri-politicians who have hung off the edges of all of that have indoctrinated even young farmers who go through tertiary education. There are still some of them out there that believe that this is the way that they'll be profitable. Then you chuck in a few other things - the collective philosophy that's still a remnant of the old socialist thing.

It's interesting about our circumstance in Western Australia where the PGA has existed and has attracted a particular type of thinking, and over the last 20-odd years we've developed to the point where we're organised to advance the cause of people who don't believe in that system.

Other states don't have that - they don't enjoy that opportunity - but we are aware now that in South Australia there is a group of farmers who are wishing to formally organise themselves to actually promote the cause of deregulation of their grains industry in South Australia, because their long-standing farm organisation has never believed in it, and never will believe in it. We know of other states in Australia where there are plenty of farmers who often say to us, "Gee, wish we had another organisation that could present a view like you do." That goes some way to trying to explain why they think like that now.

MR BANKS: Yes, thank you.

MR McGILL: It's a bit of a mystery, though.

MR BRADLEY: I suppose one additional thought on these regulations at any cost: last year we had a pretty good example of that where private traders with the advantage of permits issued by the Grain Licensing Authority were bidding quite good cash prices, significantly above the pool, and the Farmers Federation had quite a campaign urging their members not to support the cash traders but to put their grain in the pool, and that's a decision which probably cost them 30 to 35 dollars a tonne. We don't have an explanation for that activity, because we're in business to make a profit and not to support some idealistic or Utopian theory.

MR BANKS: Yes.

MR WEICKHARDT: You'd sort of think that farmers have every reason to be self-interested in their own future.

MR McGILL: Philip, it is interesting that when the Grain Licensing Authority system in Western Australia was implemented - I think it got under way in September 03, so it was late in the year of activity - by year's end, I think we were aware that there were some 700 growers in Western Australia who availed themselves of the opportunity to sell to permit applicants. All of them would have done better than a pool situation. I'm not quite sure what the situation is this year. Circumstances are different. Unfortunately, this year the regulations allowed the Grain Licensing Authority to prohibit the issuing of licences until late in the piece. Many growers are disaffected by that circumstance and are suffering because of it now.

In relation to wheat, I put it to the commission, and to anybody else, that even if you cut the thing off overnight - some people think that the sky will fall in and there will be terrible attrition out of the industry and shock and horror - I don't believe there would be any suffering. I believe the farmers would adjust very quickly. Grain farmers in Western Australia - and possibly Australia - for many years now have had an opportunity to have themselves educated in new ways of marketing grain and hedging and all those kinds of things. There have been some very, very good opportunities for farmers. Those who aren't availing themselves of that would very soon pick up the cudgel. So if some brave politician went, "That's it, it's finished," I don't think you'd see this massive haemorrhaging of blood on the streets. You would see the wheat farmer of Australia adjusting, and he'd adjust quickly and he'll do better because of it. That's our belief.

MR BANKS: It's sort of implied in your comment there about "a brave politician" that you wouldn't actually see it happening that way. What would be a good way, in your view, for it to happen to sort of maximise the upsides and minimise the

downsides?

MR BRADLEY: The first thing that's happened, and it's to follow the advice in the Kronos and Accenture reports and was part of our joint industry submission group - I mean, there has to be contestability between the farmgate and the port - contestability of services; the disaggregation of them. The Wheat Export Authority needs to have more independence from AWB. I think the AWB constitution needs attention, too, so that those conflicts of interest can be better addressed rather than wished away. They're the sorts of things that are necessary, and they would be relatively simple to implement, because AWB enforces the - they're a monopoly over grain up-country, just through a couple of simple business rules. One is ticket-by-ticket invoicing and the other is a limit on tonnage that can be put in the basis pool. If you changed that, you would transform the industry overnight.

MR WEICKHARDT: Is the Western Australian experience with the grain licensing option a way of, if you like, sort of transitioning here, do you think?

MR BRADLEY: I think that's right, except you need to be a bit more rigorous, because the principle of the Grain Licensing Authority legislation is that the onus be on the Grain Pool to prove that it has got premium markets, which it should have exclusive access to, but in fact the implementation of the policy under the guidelines restores the Grain Pool's veto to some extent. To be more effective, you would have the AWB say, "Well, where are your premium markets?" The rest of the markets are contestable. The AWB can contest in them as well.

MR WEICKHARDT: Has the NCC report, at least in barley - will that, in your view, change the grain licensing authorisation, in that they were not convinced that there were any markets in which a premium was being achieved?

MR BRADLEY: That's because there isn't any.

MR MCGILL: There isn't.

MR WEICKHARDT: So do you think the Grain Licensing Authority will take any note of that?

MR BRADLEY: The Grain Licensing Authority is operating according to the guidelines. They can only act on the guidance that the minister gives them, but they must know that they're not in compliance with competition policy. The chairman has told me that that is a problem for the government to address and his role is to implement the guidelines as he's been instructed to. I'm sure the Grain Licensing Authority would like to have more freedom to make rational decisions, because at the moment they're being embarrassed by declining applications for canola into, say, India; into segments of the market where no Australian from any state has ever sold

canola. That was at a time when canola was over \$400 a tonne, and it's now \$320 or something, and that was 60,000 tonnes knocked back. Eighty 60-thousands is a lot of money.

MR MCGILL: Just to go back, Philip, to your original question as to whether the concept here may apply nationally - and Leon referred to some rigour that needs to be there - one of the things that has to be done there is the main licence holder in this case has to prove there's a premium, but that must be because of the exercising of market power, and no other reason; no freight or the state of the crop or something like that. If anybody is going to consider implementing a national scheme as a transitional arrangement, it has to have significant rigour and not be politically interfered with by politicians who are afraid of some quasi reaction from vested interests. That's what's happened in Western Australia. The regulations have been developed here to in fact allow the Grain Pool of WA to have a de facto veto. If anybody is going to consider applying that to the wheat marketing system, you really have to learn the lessons from what's happened over here.

MR BRADLEY: One particularly destructive aspect of the wheat marketing arrangements is the restrictions on the container trade. It's just insane. I mean, the cost of actually containerising and dealing with containers, you'd think there'd be enough margin in that as a form of shelter for AWB's bulk markets, and a simple reform would be to completely deregulate the container trade. It would be a very important safety valve as well, because we've heard recently where, particularly in a report done by Food South Australia, many Australian customers are becoming very, very dissatisfied with AWB service. If you had a safety valve like the container trade, you would soon notice that more and more grain was going out in containers and AWB would be forced to adjust their behaviour, and the information would flow back through the market, whereas at the moment there's nothing.

MR BRADLEY: In fact, the information is all one-way traffic.

MS FIELD: If I could just make a comment about the GLA, you were comparing it to maybe putting it into a national scope. The Wheat Export Authority, if you just want to compare the two of them, one of the important things they're supposed to do is give us information - give growers information - about how well AWB are managing the single desk. The amount of information we got out of our GLA report that went to the minister this year is just so far over and above what you received from the Wheat Export Authority, and we have a minister in this state that actually lets us have a look at those reports, unlike the federal counterpart. But there was more information in their report that they issued for state barley and canola, et cetera, than we've ever received from wheat. So from that aspect, in terms of transparency, the GLA has really proved to be a step forward.

MR BRADLEY: And the total cost of that, including the administration of it, is

less than 400,000 a year. The Wheat Export Authority charges 22 cents a tonne levy and produces less.

MR BANKS: Again - this is a theme I think of the NCC commissioned study from ACIL Tasman - would the partial deregulation experience in WA in relation to barley have any implications for the performance of AWB Ltd in a more deregulated environment? I mean, would we see it actually performing better?

MR BRADLEY: If wheat was partially deregulated?

MR BANKS: Yes.

MR BRADLEY: I would think so. They would have little choice but to rearrange their game, because right now, whatever the propaganda they issue, they're simply a cost-plus organisation and they'd have to change the way they do business. I understand they actually have 100 more employees - or approximately 100 more, off the top of my head - than they did when they were a statutory authority, so it's a pretty unique privatisation, isn't it? We call it the privatisation from hell.

MR BANKS: We had representations from the dairy industry in WA this morning. You make a comment in the earlier submission of June, and I quote:

The suffering of the dairy industry during the 2002-03 drought is another example where reforms should be implemented across the board, otherwise one industry may suffer at the expense of another.

Could I just ask you to elaborate on that point?

MR BRADLEY: Yes. It's good to see the dairy farmers here, even though they're from WAFF, because we're actually their friends. We can make grain more cheaply available to them by, first of all, taking out the costs and, secondly, not exporting. In times of shortage, the shortage is exacerbated by the marketing strategies at both the Grain Pool and the AWB, and we have anecdotal evidence that a buyer buying on behalf of dairy farmers actually offered AWB \$340 a tonne delivered port in December and couldn't acquire any grain. Six months later the AWB were knocking on his door trying to sell the same wheat for \$230 delivered port. That wheat that was offered - that he couldn't buy at 340 - was actually exported for about 230, 235 delivered port.

MR WEICKHARDT: So what explains why the Wheat Board behaves that way?

MR BRADLEY: They have an incentive to. Through their control of exports, they also control the domestic market and they also have the ability to stock-swap across the country, so they can create a shortage wherever they like and exploit it. I think if

you go to the 01-02 report you'll find that they actually bought four and a half million tonnes, from memory, on the domestic market and they put two and a half million tonnes of that straight into the pool at a profit of \$25 a tonne. That's good business if you can get it.

MR McGILL: And you can if you have a monopoly.

MR BRADLEY: That's also one of the reasons why we have the Grain Pool and CBH complaining bitterly in WA about the introduction of the GLA. The traders have bid up the price of grain to export parity, so there are no soft margins for the Grain Pool's cash trading arm to generate synthetic profits. The same thing would happen in the case of the AWB. The other advantage of a freer market for dairy farmers and other users, such as the pig industry, is that you would get more liquidity and better risk management products for the pricing of grain than we have now. I think the WAFF dairy farmers section and the WAFF grain section have a head-on conflict of interest there.

MR WEICKHARDT: There seems to have been, in the submissions which the Grain Growers presented to us, a sort of flavour - and these weren't their words, they're mine - of, "Well, we like the monopoly we know" - that's the Wheat Board - "and we don't like the monopoly of the big international grain traders, because they're avaricious and they're big gorillas in the world and they're going to take all our money from us." Is there any evidence that you've seen in the deregulation that's occurred so far that those big global traders have disadvantaged farmers locally?

MR BANKS: I think that might have been the Grains Council.

MR WEICKHARDT: Grains Council, sorry.

MR BRADLEY: I think that's their usual rhetoric. It's the old fear of uncertainty and doubt. Whenever they come under challenge, that's what they resort to. I don't believe there's any merit in that at all. All the people who sold to the buyers who were actually issued licences were paid more promptly than they would have been under the current system. Just the same, we did have one bloke fall over here, but he was bidding \$10 above the market. The rumours were flying for years, "Take the \$10 risk premium and pay the price if you get it wrong."

MR McGILL: Philip, I think the proposition you're putting on behalf of the Grains Council is based a bit on the 1930s mythology that's still prevalent in some wheat growers' minds of collusion and the behaviour of multinationals and whatever else, and traders and middle men and all sorts of other things they want to call them. My understanding is that it is just that, it's mythology, but we look at this day and age where the average farmer on his harvester right now - where I should be, actually - if he did have opportunities to receive prices from whoever it is, he's got every

opportunity today to test whether he's been disadvantaged at the touch of a button.

There's a myriad of information available - massive communication information and technology available - to the average farmer sitting out on his harvester right now, if you want to do that. You can test that any time, unlike the poor old farmer in the 1920s, who might have been out there chopping trees down and had none of those opportunities. I don't see that there will be any disadvantage whatsoever. It's just one of the old rhetorical tools that is used, and I'm afraid it's a bit successful at times in the wheat growing fraternity.

MR BRADLEY: It's forgotten, of course, that any dealings with an international grain trader are voluntary. You can choose to deal with them or not. I can't see that there's any problem. It's just that the Grains Council doesn't like the outcome that they know will happen when growers are given the choice. They will suddenly forget the Communist manifesto and they will be busy out there making a quid, which is what they should be doing.

MR McGILL: They will vote with their feet and the grain - - -

MS FIELD: As this report said, the incumbent traders when they have lost their monopoly, like ABB did in Victoria, are still very well patronised by growers. It's not like they disappear and go into obscurity.

MR McGILL: You couldn't imagine the AWB as a deregulated entity. I mean, it will have to do some things internally to adjust and so forth, but you couldn't imagine that all of a sudden it would just disappear off the face of the earth and become uncompetitive in buying wheat, because it would very quickly adjust as an organisation and even leverage off its natural sort of sympathy from growers. Even then, it would do some adjusting and very quickly be a major player.

MR WEICKHARDT: Thank you very much. That's been very useful. I don't know whether you're intending to actually put any of this on paper as a second submission to us. If you could - - -

MR BRADLEY: We will, yes.

MR WEICKHARDT: Good. We'd appreciate that. It would be useful to have it as a submission as well as on the transcript. Thank you very much.

MR BRADLEY: It's been a pleasure to be here.

MR WEICKHARDT: We'll just break for a minute.

MR BANKS: Our next participants are from the Council for the National Interest. Welcome to the hearings. Could I ask you, please, to give your names and your positions with that organisation.

MR O'SULLIVAN: Denis O'Sullivan and I'm the chairman of the WA state committee of the Council for the National Interest.

MR BANKS: Thank you.

MR O'SULLIVAN: By way of explanation, the Council for the National Interest is really a body of concerned citizens who, by the name of our organisation, are concerned with issues of national interest. We meet together, formally, as a state committee, once a month. We have four branches in WA and about a hundred financial members.

MR BANKS: Thank you. Might I just ask your colleague to give his name for the record?

MAJOR GEN TAYLOR: I am General Ken Taylor and I am on the state executive also.

MR BANKS: Thank you very much. It's ideal for the Productivity Commission to have representatives of the National Interest coming along to talk to us. Quite often we'll have representatives of particular interests talking to us. You've put in a submission back in June, which we found useful. I don't believe we've had another paper submission but will give you the opportunity to make whatever remarks you'd like to make and we'll take it from there.

MR O'SULLIVAN: We apologise for the shortness of time in the lead-up to the knowledge that we were going to have the hearing here. We didn't really have time to put it together and get it to you but my colleague, Ken Taylor, will read the report that we've written and it's essentially directed at the review booklet.

MR BANKS: Yes.

MR O'SULLIVAN: And, as you have already highlighted, unlike certainly our previous people who were on before us from the panel, we present a total view rather than a sectional interest and our comments are directed in that vein. I'll ask Ken Taylor to read the draft report that we've written. We will welcome intervention at any stage and we would like to make some further comments at the end of that.

MR BANKS: Good. Can I just ask, before you start on that - it's not a 20-page - - -

MAJOR GEN TAYLOR: Three.

MR BANKS: Three pages; that sounds quite feasible. Thank you.

MAJOR GEN TAYLOR: It's quite brief, really. The draft report that we are now considering is essentially two things. It is a progress report and it is a plea for the continuing existence of the Productivity Commission. The commission's case I believe was weak and unproven. It has achieved many good things but its time has come. It should pack up and go home. The writing is on the wall. The prime minister has taken the productivity incentive payment for the next two years, away for another purpose and currying will not change this.

MR BANKS: Do you mean the competition payments?

MAJOR GEN TAYLOR: Yes. The great contribution of the commission is the very big change of attitude of governments and the community towards national competition policy and its benefits.

MR BANKS: Sorry, can I just clarify? When you talk about the commission, are you talking about the National Competition Council or are you talking about the Productivity Commission?

MAJOR GEN TAYLOR: The Productivity Commission.

MR BANKS: You know that we've had no formal role in the oversight or running of the national competition policy?

MAJOR GEN TAYLOR: Yes, it's confusing. I see you as the generator of the policy, which is then implemented by others, including governments.

MR BANKS: We are an advisory body.

MAJOR GEN TAYLOR: Yes, I understand.

MR BANKS: We are called upon to do a review of the revenue implications of the national competition policy, which flowed through into the competition payments that you described earlier. Of course, our work is far more extensive than national competition policy. We've been involved in a range of inquiries, including social issues like gambling and environmental issues and so on.

MAJOR GEN TAYLOR: I guess my remarks are attributed to both the council and the commission, but I don't know enough to - - -

MR BANKS: The distinction between the two of us - both organisations - I would like to make clear because we shouldn't be confused as the one organisation.

MAJOR GEN TAYLOR: Okay. I will continue using the word "commission" as a blanket coverage - - -

MR BANKS: I should just say, for the record, the interpretation you put on that suggests to me you are talking about the council rather than the commission. If you differ from that let me know.

MR O'SULLIVAN: We are really talking about the National Competition Council as a definition.

MR BANKS: Okay.

MAJOR GEN TAYLOR: The words I have here are "commission" so I'll stay with that, if you are happy with that.

MR BANKS: As long as, for the record, we know you mean the council, that's fine.

MAJOR GEN TAYLOR: Okay. I'll go back one step then. The great contribution of the commission is the very big change of attitude of governments and the community towards national competition policy and its benefits. The great harm done by the commission stems from its nature. The commission is driven by economic fundamentalists and, like religious and other fundamentalists, their virtue is in reminding us of higher ideals. The crippling defect is their remoteness from reality and their slavish adherence to dogma.

The consequential detriment to the community and the commission's competition policy is not understood or appreciated by the commission. Nothing must stand in the way of competition. This is the Holy Grail. This seems to be the mantra, regardless of the consequences. The commission's zealous insistence upon competition above all else, with sometimes scant regard for the impact of the consequences of their actions, is classic fundamentalist behaviour and many people think this is dangerous.

Some observers might say that the rationalisation of the dairy industry is a classic example of the extremism of the commission. There is no doubt that the archaic pricing practices in New South Wales had to be changed but the total hurt to communities across Australia was not warranted. Has the retail price of milk to the consumer been significantly lowered and stayed low? The answer is: "No".

I turn to electricity supply, and this is my major theme. Of far more significance is the electricity supply industry - to quote from page 162 of the draft report:

Reliable, affordable and sustainable energy services are critical to Australia's economic and social wellbeing. They are an important input for most businesses and they are essential for supporting the basic quality of life.

As a direct result of following the commission's fanciful and ridiculous fetishes about fragmentation and competition the electricity supply situation across Australia is now an imminent disaster. Threats of shutdowns, brown-outs and power failure are common and universal. How the communities will suffer in this coming summer remains to be seen. What is fundamentally clear is that there is a gross shortage of generating capacity and the situation is going to get worse before it gets better due to the long lead times necessary to increase generating capacity.

This shortfall has occurred because there has been an enormous reluctance by the players to spend funds on capital works and ongoing maintenance. Competition and profits have been the drivers. This massive underspend on capital works will take years to correct and who in the fragmented industry will pay for it? There has also been a very large underspend of capital on the critical transmission and distribution networks. The following extracts from industry submissions to this draft report are very revealing. The Electricity Users Association submission - numbers 1, 2, 3 and I quote:

However, our view is that since 2000 and 2001 large business users have experienced increases in electricity prices across all states to the extent that most of the benefits derived early on have been dissipated ... and is likely to lead to price increases of up to 35 per cent for some large energy users over the next five years in NSW. Overall by 2012 electricity prices could be over 60 per cent above levels at the beginning of deregulation reforms in 1998 and while tariffs in Queensland and NSW have continued to remain moderate, those in Victoria and especially South Australia have risen strongly with 45 per cent increases in industrial and commercial tariffs applicable in Australia from mid-2001 and 30 to 35 per cent increases in domestic tariffs expected from the start of 2003 and with further pressure to come on Victorian retail tariffs -

et cetera. Case load capacity: there is the real risk for end users that appropriate generation investment will not occur or will be delayed. This will leave end users to foot the bill of higher-than-necessary prices and/or lower levels of supply and we understand that a Delta-NEMCO forthcoming paper suggests concerns about the ability of the NEM to deliver timely base load capacity. In submission number 94 the Energy Supply Association says:

In terms of new investment the energy sector has significant hurdles ahead. Almost \$40 billion of new investment will be required in meeting

our stationary energy supply requirements over the next 10 years. Ultimately retail prices that are set below the cost of supply will have a dampening effect on investment. Over time investors will have little incentive to invest in new assets, raising the possibility of supply shortages.

I make comment. It is too easy to nod at the figure of \$40 billion and to move on without appreciating the magnitude of what it means. Other industry sources estimate that \$80 billion to \$90 billion needs to be spent on capital infrastructure and electricity projects in the next five years. Most of these figures are quite extraordinary. Note that in 2003 total expenditure in Australia on all resource industries - that's minerals, processing and energy - was \$20 billion. Even allowing for growth in demand these figures clearly show the huge backlog in capital expenditure.

The people of Australia are going to suffer from a shortage of a basic necessity of life as a direct consequence of the short-sighted and simplistic policies of the commission. In conclusion the nation has benefited from the initial work of the commission but it is now doing more harm than good. The economic fundamentalists have shown us the dangers of narrow outlooks pursued by zealots. It is now time for the commission to close down. It will take many years for the electricity supply industry to recover from the damage caused by the policies of the commission.

The focus on competition has prevented the necessary capital expenditure on generating capacity, transmission and distribution networks. The required spending on capital work is enormous. It will be interesting to see how long it takes for there to be a guaranteed supply of the basic necessity of life. Thank you.

MR BANKS: Thank you. Again, I guess I say at this time on behalf of the National Competition Council that they did not design the national electricity market. I mean, this was something that has, I guess, been sponsored by the Council of Australian Governments which involved all jurisdictions. You have mentioned the commission. In this sense you're correct, in that the old Industry Commission back in the early 90s did a report on energy which suggested the need for some reforms. I think the points you make are quite important in relation to investment and we ourselves have identified this as a big issue.

MAJOR GEN TAYLOR: Yes, you have.

MR BANKS: But whether you think that it's only feasible to have adequate investment in an environment in which there's no competition, or whether it's possible to have some competition and therefore push down costs and so on, but get the regulatory environment such that investment also is possible - - -

MAJOR GEN TAYLOR: I'm not saying there should be no competition and I would never say that.

MR BANKS: Right.

MAJOR GEN TAYLOR: What I'm saying is that the extreme focus on competition has blinkered everybody's view to the other parts of the world. The normal things that would happen with the monopolies like Western Power and the other electricity authorities when they, in the benevolent sense, if you like, said, "Well, here's your electricity, but we will continue to provide this basic necessity for you and we'll spend the capital and do the work on the ageing infrastructure and so on" - when the thing started to fragment the bodies lost confidence in investment. The focus was so much on competition and fragmentation, and breaking it up and making it readily available and marketable to other people, that spending money on capital was just plain bad news and it was stupid.

One of the reasons why they did not spend money on capital was because they naively thought, "I'm going to get a buyer for this fragment part or whatever it is and for that to happen, I've got to show good books and all the rest of it," without recognising that anybody coming along would do a due diligence test on what had happened. He's going to say not, "How much did you spend on repairing the distribution network last year?" but "Show me the trend lines for the last 10 years." It was just childish and silly to think that they could get away with not spending capital. That's what I think has actually happened. Sorry, it was a long answer to a short question.

MR BANKS: No. It was a relevant answer.

MR O'SULLIVAN: And to add to that, perhaps our view is that the infrastructure attached to public utilities should of necessity remain under state ownership, because Western Power in this state, as I'm sure you're well aware, has run down the infrastructure to the point where they're now facing serious legal challenges as a result of fires caused by just lack of maintenance of lines. The gas pipeline sale in this state a few years ago has also proved to be a commercial disaster, in that the price paid by the purchaser was such that they didn't have, under the gas price regulators, a set price for the gas that they were selling out of that line. They didn't have enough margin to do any building of the extension to that line, as was part of their charter.

MR WEICKHARDT: I guess that's really my question and a lot of people would say that the issue is not the ownership of the asset but the way it's regulated that is inhibiting investment. The gas pipeline from Bunbury to Dampier and vice versa is a classic case where I think most fingers are pointed at the regulator as the person that

had dampened investment. It wasn't the owner that was unprepared to invest. It was at the prices they were regulated they were unprepared to invest. Do you have a view as to whether or not it is primarily an issue about regulation, as opposed to an issue to do with competition and ownership?

MR O'SULLIVAN: Could you put that question again?

MR WEICKHARDT: You have said that the problem is the competition that is occurring and I think you've also alluded to ownership being a problem.

MR O'SULLIVAN: Yes.

MR WEICKHARDT: I think other people would say the problem is not due to those factors, but due to the regulated prices which are having a dampening effect on reinvestment. Do you have a view on that?

MR O'SULLIVAN: That's certainly the case with the gas deal, yes, but the person controlling the gas regulated price in this state is a government appointee and he's meant to be seen to be independent of everyone. I guess that's the issue.

MAJOR GEN TAYLOR: When it comes to electricity, the old corporations of the Western Power - they did have a global and a long-term view, but what has happened with the competition policy is that now everybody has got a short-term view. Nobody had this responsibility for looking after the capital investment. If you like, all the players took their eye off the ball because they were after instantaneous profits and they had mostly a retail-driven attitude. The benefits of the old monopolistic corporations was that they were able to think longer term, to think strategically. Not many of the players out there in the market now think at all about strategic issues; about "how I'm going to keep staying alive". The consequences of that are appearing all over Australia.

MR WEICKHARDT: I think there are examples of companies that are free-enterprise organisations - that are not regulated and are in competitive markets - that do think long term.

MAJOR GEN TAYLOR: True, absolutely. I'm not denying that.

MR WEICKHARDT: Lots of companies - - -

MAJOR GEN TAYLOR: I'm not anti competition. What I'm saying is that the focus was wrong. Everybody focused on profits and competition and all the rest of it but they forgot about the rest of the business and the business is falling apart; I mean, the industry as such.

MR WEICKHARDT: Can I just check: this is the Western Australian Committee of the Council for National Interest?

MAJOR GEN TAYLOR: Yes.

MR WEICKHARDT: Is this view you're putting a national view or is it the Western Australian branch's view?

MR O'SULLIVAN: Western Australian branch view.

MR WEICKHARDT: Okay.

MR O'SULLIVAN: We don't have a national executive per se.

MR WEICKHARDT: I see, and there are about 100 members, you say?

MR O'SULLIVAN: In that state, yes.

MR WEICKHARDT: Thank you.

MR O'SULLIVAN: One of the other things that concerns us - and it's in the review report - are the competition payment penalties. Of high import right now, in this state, is the noncompliance of the government towards regulation of retail trading hours, which is subject to a referendum in February. If the February referendum does not achieve the 65 per cent favourable vote, how can the NCP continue to financially penalise a state against the will of the people, as demonstrated by a referendum, if that happens to come to pass?

MR BANKS: This would be a very interesting test case. I'm not aware of any other referenda that have backed up public interest type judgments of that kind.

MR O'SULLIVAN: There was a poll - - -

MR WEICKHARDT: There was, in a local area as I understand, on that very issue; in Bendigo, I think. I think it was Bendigo where there was deregulation of shopping hours and a referendum as to whether or not people wanted to continue. As I remember it people voted overwhelmingly that they wanted to continue with deregulated shopping hours. That's the only other example I know where actually the will of the people was, if you like, to continue the way of national competition policy. But if they were in opposite directions, I'm not sure what would happen.

MAJOR GEN TAYLOR: It's interesting, you know. If you have a referendum and 65 per cent of the people say, "We should do this," that is a declaration of the public interest. You won't get a more, in my view, definite announcement of what

the public interest entails, and then you can't penalise people for having a national interest which differs from what anybody else says. The people have spoken; it's their public interest.

MR WEICKHARDT: Mind you, if we had a referendum about whether we'd like to pay taxes, I think probably 99 per cent would vote against that.

MAJOR GEN TAYLOR: Without diverting, this is a very topical question. Smaller communities here; makes a difference.

MR O'SULLIVAN: And it makes a difference to the point of the current state government, I understand, as being penalised for not doing anything about egg and potato marketing but one shouldn't overlook the fact that we are a small, isolated market and that there's no room for big industry players to make any money out of a small market. So I think the people of the state, again, if you were to put it to a referendum question, may well vote to have state subsidised money, if you like, to keep the egg and potato industry in this state as they are.

MR BANKS: I guess the other thing is, I suppose, ensuring that people can make an informed judgment when they vote which in some of these areas is quite hard for people to understand what would happen. You could talk about shopping hours deregulation; as Philip said, after people got a taste of it they were quite happy to vote for it. Prior to them having it I wonder how they would have voted; it may not have been the same way. That shows how complicated it is. Anyway, I think we're getting into deep philosophy here and probably out of our depth, but it's a very relevant point to make.

MR O'SULLIVAN: One final point I'd like to make is, in the totality of national competition policy it has really encouraged the growing of the national debt, if you like, in the current account deficit. Because we've destroyed our manufacturing base along the way with the implementation of many of the issues surrounding national competition policy, it encourages further extension of the current account deficit, if you like, because we've destroyed our manufacturing base and we really have got to import more goods to counteract that.

MR BANKS: You're tempting me to get into an economics lecture which I'll resist. The only point I'll make, I suppose; what we've found is, as we've let more imports into the country, exports have gone up as well. When you look at a chart of imports and exports over time they've been rising like this. What influences the balance of trade or current account at different points in time often has a lot more to do with the capital account and how much capital we're sucking into the country; then again, how that's being used. But the only other point I would make, I suppose - and perhaps it's a semantic one, I think, in relation to manufacturing - manufacturing has actually benefited from a lot of the national competition policy reforms because

they've reduced manufacturing input costs. But the point you make is broadly right in the sense that it was the tower of reforms, I think, that impacted most on manufacturing.

MR O'SULLIVAN: Yes, that's right.

MR BANKS: But that then led them, I guess, to look at other input costs and whether something could be done there. I think my colleague, as a manufacturer, has seen both sides of that story. But we might leave it there. We appreciate you coming along and the earlier submission you made to the inquiry. So thank you very much. We'll break for lunch.

(Luncheon adjournment)

MR BANKS: Our first participant this afternoon is Mr Geoffrey Taylor. Welcome to the hearings. Could I ask you, please, just to indicate in which capacity you're here.

MR TAYLOR: My name is Geoff Taylor. I'm an OH practitioner in private practice and I guess I'm here in a sense looking at this whole issue from the point of view of somebody in a micro-business.

MR BANKS: Thank you. Thank you very much for taking the trouble to appear. We had very brief comment from you in the first round. In fact I think you had the honour of being the first submission in the whole inquiry. We'll give you the opportunity to go over the key points.

MR TAYLOR: Thanks. There are many aspects of national competition policy reform, but I guess what I was interested in was the issue of the impact on micro-businesses in particular. Working hours has been a very longstanding issue. I think there's a memorial dating from about 1884 just near Trades Hall in Melbourne up there, when they celebrated achieving the eight-hour day, I think it was, and it's also been an international labour organisation since about 1913.

WorkSafe Western Australia currently has a working hours working party which is looking at issues like working hours, like sleep, fatigue and the effects of fatigue on work and on accidents, and they can be quite pronounced. From the point of view of micro-businesses in particular, the last few years have certainly seen an increase in duties other than business itself. GST has been a big one. Many micro-businesses might have escaped that but for the fact that the threshold to escape it was set so low and hasn't been indexed in four and a half years and also was set on the basis of turnover, so that profit margins really didn't play a part in who was in or out of the threshold, but it certainly can be quite time-consuming, so it's just one more thing that's added to the time burden of people in small business.

In the context of national competition, there certainly are people who would choose to work very long hours, I guess, particularly if they're newcomers to this country, as some are, to get themselves established. At the same time, the working hours that would be demanded of people - because we're not used in Western Australia to a 24/7 working environment - could be quite substantial.

My view is that the balance between competition policy and issues like this has been a matter for state parliament, with out elected representatives deciding what the balance is to be in Western Australia, and certainly I guess you could say without - I don't wish to put anybody's nose out of joint, but there's a sense that in that way perhaps we know a little bit better than the wise men from the east.

MR BANKS: And women!

MR TAYLOR: Wise women from the east; wise people from the east. Really to round that out, there are issues I think in that area of working hours, particularly for micro-businesses, fatigue, the effects of fatigue, all need to be taken into account and really I think that's an area where we need to have some sustained research. Thank you very much.

MR BANKS: Thank you. These issues I guess are ones that you're raising particularly in the interest of shopping hours and deregulation of shopping hours. Is that the contest?

MR TAYLOR: Yes, primarily, but there is a flow-on impact to other areas of business, I believe, in relation to this issue, yes. If there's a general trend to 24/7, it will impact across a range of areas of business, not just retail. I mean, retail is the one with the focus, sure, but it's not just retail.

MR BANKS: Well, I have great sympathy with the perspective you bring to bear. I think we're probably all working a bit harder, and I certainly feel I am. The point you make about state parliament I also think is obviously a legitimate point. Your concern is that in relation to competition payments, penalties have still been invoked where - - -

MR TAYLOR: I think we're 40 million down this year, aren't we? Something like that.

MR BANKS: Yes, so that's your concern, that penalties have been invoked, even though parliament has decided to go a different way or not decided to reform.

MR TAYLOR: The Western Australian parliament has decided - well, the issue is open again now because of the referendum which is going to be held with the state election, but certainly at this stage the parliament has balanced the issues and come to certain conclusions as they stand at the moment, and for exercising what I'd call a democratic choice in the Australian Federation, they've been punished to the tune of \$40 million, which is hardly my idea of democracy.

MR BANKS: In fairness to the process, I suppose, the only point I'd make would be that the payments which were withheld in that case were predicated on certain reforms taking place, and if the reforms didn't take place, the payments were withheld. Now, they are talked of as penalties, but you could almost talk about them as simply withholding payments that were predicated on certain things happening. That's just to put a finer point on it, I suppose, but I think your broader point is an important one.

MR TAYLOR: And you'll probably tell me, too, that constitutionally it's a federal

parliament act and so, yes, it does override whatever happens in Western Australia anyway.

MR BANKS: Well, I suppose even more importantly in a way, heads of all governments agreed early on to this process. As you would have seen in our report, we have indicated that it hasn't been a process that couldn't be improved and indeed, the issue of the public interest and assessing that, I think, is an area where we felt that the NCP could have performed better. But I don't have any other questions.

MR WEICKHARDT: I guess I'm just trying to get my mind around exactly the issue here because you said - well, not a 24/7 type environment here and yet clearly there are some activities that have been well and truly 24/7 activities for a long while. I suspect this hotel has somebody on the front desk 24/7. I suspect there are taxis going up and down the street 24/7 and there are certainly process industries around here 24/7. I come from a manufacturing background where we ran a lot of continuous operations and yet we were incredibly concerned about OH and S issues. I'm very sensitive to your point that fatigue is an important issue, but being 24/7 doesn't necessarily mean that every employee has to work 24/7.

I understand it's much more difficult for small businesses but if businesses grow in that environment - and we have had submissions that have been put to us by retailers, for example, some small and some big, saying that actually, liberalisation of shopping hours has stimulated business in certain environments and therefore has allowed some businesses to grow and maybe, therefore, have the staffing that allows them to operate 24/7 without individuals being exposed to fatigue. So it's a sort of long introduction to my question which was really, is your primary concern the OH and S and fatigue issue?

MR TAYLOR: Yes. You're certainly right. I mean, there are certainly areas of industry, be it the hospitality industry, manufacturing, chemical process for example, public transport, police, which operate quite happily that way but I think my particular point was that can become much more difficult in a micro-business. The chances are in that situation that people are going to work very long hours, are going to suffer from the effects of chronic fatigue, which are quite serious, in some cases life-threatening, and also with a drastic effect on family life.

MR WEICKHARDT: I think we'd be in heated agreement with you that those extremes are not desirable. The issue is, I suppose, finding a happy medium so that we can go out in the street and hail a taxi when we want to without thinking that the taxi driver has just worked 24 hours without a break. There has got to be a way of achieving some choice for consumers without subjecting individuals to unrealistic and unreasonable working hours.

MR TAYLOR: Yes, so I suppose to round it off, Philip, it would be that I think

we'd like to see NCP with a human face.

MR BANKS: All right. Thanks. Probably a good note to end the session, so thank you very much.

MR TAYLOR: Thank you.

MR BANKS: Just break for a moment, please.

MR BANKS: Our next participant this afternoon is Mr Steve Dilley. Welcome to the hearings. Could I ask you please to just indicate in which capacity you are here today.

MR DILLEY: Thank you, Gary. I come here today, I suppose, as a Nuffield Scholar. I was awarded a Nuffield Farming Scholarship two years ago and I was actually studying the percentage of the retail price that farmers receive. My own background, Gary and Philip, is a farming background down to Donnybrook in the south-west. I am the immediate past president of the Western Australia Fruitgrowers Association, which represents about 800 apple, pear, citrus and stone fruit growers.

As I mentioned, I was previously a Nuffield Scholar. I also went through the Australian Rural Leadership Program in 96-97, so I have been very fortunate to have travelled and seen a fair bit of the world and understand some of the bigger picture issues, I suppose. The national competition policy is one of those issues that I see impacting on regional and rural Australia quite markedly, which is the reason why I took a great interest in today, even though I found out about it late and I thank you very much for the opportunity at short notice to say a few words.

I would like to start by endorsing a lot of the comments which have already been spoken here by the WA Farmers Federation and Nola Marino and Jenny Fry. They have actually seen the effects of deregulation, as I have, with some family members mixed up in the dairy industry. If I could just briefly talk - I suppose number 1 - about deregulation of primary industries and then just quickly on deregulation of trading hours. The other one is a potential deregulation or break-up of Western Power.

MR BANKS: Yes.

MR DILLEY: I will actually leave a copy of my Nuffield report, which is entitled Family Farms: The Next Endangered Species. I will leave that for you. There is an electronic copy - if that would be useful - which I could probably forward through to somebody.

MR BANKS: Yes.

MR DILLEY: As I said, I suppose the actual main sort of subject of my study was the percentage of the retail price that farmers receive. That's been a marked decline over the last 30 years and I suppose I was looking for some explanation for that trend. Just to give you an example, this was actually from some graphics and an article which appeared in the Sydney Morning Herald in June 2000. In 1970 a dairy producer, a dairy farmer, got 55 per cent of the retail price. That has now fallen to about 23 per cent. This is in 2000. It has fallen even more since deregulation.

A wheat farmer with a percentage of the retail price of bread was 14.5 per cent and that has now dropped to 3.5 per cent. Apples were 56 per cent of the retail price in 1970 and down to about 16 per cent, and for a beef farmer in 1970 they received about 41 per cent of the retail price; that has fallen to about 20 per cent, as well. I suppose that is what really whetted my interest in the subject, so I spent three or four months overseas researching in different areas to see if the same trend was occurring in other parts of the world - mainly in western areas where supermarkets have started to dominate.

I suppose supermarkets get vilified a hell of a lot - and I am not about to do that. They're an extremely successful business model, but the reality is that they will use the power they have got and I suppose it has already been mentioned here today - and it is probably one of the conclusions in my report - is that farmers are the only price-taker in modern food supply chains and, as a consequence of that, they have got an inherent price-taking weakness which is very easily exploited.

I'll just mention quickly what I've discovered are the changes in the supply chain dynamics over the last 30 years, where you can take just about any product, whether it's fruit and vegetables or meat or dairy, whatever. There was a multitude of buyers, if you like - your small greengrocers or small butchers or whatever - that used to compete for the product, and supply and demand used to set the price. I suppose with the advent of major retailers like Coles and Woolworths, as they got bigger and bigger they have obviously killed off a lot of the small business in competition, and the situation which most farmers are now faced with in the domestic Australian market - they have actually very limited opportunities to sell their produce and, as has been mentioned this morning, there was a multitude of sellers, primary producers, price-takers, trying to sell to two or three major retail chains, so that's probably one of the biggest impacts that has happened.

As I said, supply and demand doesn't really set the price any more. It's only very rarely - if there is an extreme shortage - where producers will actually see a spike in the price and it doesn't happen anywhere near to the level it used to. As it's more recognised that Coles and Woolworths are in a real dogfight with each other, extremely competitive, and of course what they're trying to do - they are in the game of trying to supply consumers with the cheapest possible food they can and, as a consequence of that, they try and drive any cost increases back down the supply chain, so the service providers in the supply chain below the retailers have effectively got to wear any increase in costs, but of course they just keep passing it back down the line until it actually gets to the primary producer at the bottom end of the chain.

That's the reason why the percentage of the retail price for farmers has actually been declining - because effectively there has been almost a cap at the top, if you like, of retail prices. You probably would have heard many times farmers quite often

lamenting, "We're receiving the same prices as we were 20 and 30 years ago," and that's just not sustainable. I think there is an expectation in this day and age from major retailers. They expect you to keep producing food - whether it's dairy, meat or vegetables, fruit, the whole lot - at the same price year after year after year, and that's just not possible.

Sadly, the way it's going - I suppose with this almost economic rationalist sort of theory, and obviously I believe that the national competition policy follows that mantra - the reality is that it will only be those producers in the world that are the lowest-cost producers who will actually ultimately survive. I have grave fears for Australian horticulture: the fact that we are high-cost producers because of our high labour costs. For example, we're paying \$120 a day casual rate plus superannuation plus workers compensation, as well, whereas China - one of our main competitors - is a dollar a day.

That's one of those great difficulties, and I think when the opportunity comes for imports with obviously free trade deals, as well, a lot of those major retailers will source product at the cheapest possible price. I understand, Philip, you are from a manufacturing background and you would see that all the time: you know, imports from China, Malaysia, Indonesia - wherever is the cheapest possible place, that's where they'll get them from, and there is no regard from a major retailer's point of view of the social consequences for domestic suppliers and that's having a huge impact.

MR BANKS: In your overseas research - I think it's implicit in what you said - did you find the same phenomenon occurring?

MR DILLEY: Very much so. Everywhere I've discovered a number of government inquiries. In the UK they had a competition commission inquiring into the dominance of supermarkets and the effect that that was having on family farms, if you like, and on farmgate returns. They were also looking at the point of view that they thought perhaps UK consumers were actually paying too much for food. There was a perception there that retailers on the continent were actually retailing at lower prices, so it was sort of like a two-pronged emphasis for the report. I looked at that one there and a fair market or market failure report, which was done by the Australian Senate; price determination in the Australian food industry, as well.

Out of all these government inquiries there have been what I call "soft solutions", if you like, where the actual inquiries have recommended mandatory codes of conduct and the like, but in actual fact they came down to voluntary codes of conduct, which have been pretty effective. But in answer to your question, the same trend is occurring all over the world, and farmers, as I said, being the only price-takers in the supply chain, are having enormous problems. That's in Canada, in the US, the UK, in particular, and there's no real easy answer to it, I suppose,

anyway. But I suppose the point is, there's a lot of fallout in there where we have, as I said, Coles and Woolworths, as mentioned in here this morning; we've actually got the most concentrated retail sector in the world.

Some of my statistics: I found in the UK the most powerful retailer there is actually Tesco, which have got about 16.5 per cent market share. Looking at the majors over there, there are around about five majors and five smaller ones; they only account for around about 60 per cent market share all made up. So there's still a considerable amount of small retailers in the market, whereas in Australia, as you're quite well aware, we have really two majors. In the eastern states, the figure banded about is around about 80 per cent market share. Here in Western Australia it's 60 per cent, and that's probably only because there's actually still some restriction on trading hours as well. That's an issue which I'll address briefly as well.

Some of the fallout of that price-taking nature: ABS statistics, in 1960 there's around about 200,000 family farms. By 1990 that had dropped to about 114,000, and it's sub 100 now as well. The average age is also increasing, and that can all be brought back purely and simply I believe to profitability. Because the profitability is being squeezed, it's not as attractive for young people for the next generation to continue on. You heard Nola Marino speak this morning about the social fallout of farms selling up, and that aggregation, if you like, of the neighbour buying the neighbour. That's what's happening because they're not getting any more for their produce, be it wheat, milk, fruit - whatever it might be. You need that scale, if you like, economy of scale, to continue. But that's having a massive impact at rural and regional level.

Another point I'd like to make is, obviously aside from the fact that farmers are the only price-takers, the more perishable their product, the easier that inherent price-taking weakness is to exploit. Obviously you've heard this morning from PGA and WAFF talking about grains. Okay, it's a bulk commodity traded on the international market, but you've got a little bit of time to play the market, if you like, and perhaps explore a few options. But when you're talking fruit, vegetables and milk, the more perishable the product is, the worse position that producers actually find themselves in.

Something else - if I could make an observation - which I've seen around the world and certainly within Australia as well: I believe there are only three price-takers in the economy. One is probably the mining industry, the resources industry, but they're obviously very huge in their own right. There's no real issues there with bargaining dynamics. Obviously they've got to compete and actually find markets for their things but there's probably a pretty good equilibrium in countervailing power between buyer and seller. The second price-taker in the economy I believe are wage and salary earners, and they're protected by the award wage system and minimum wage system, and rightly so; and the third one of course

is farmers themselves being price-takers.

So I see there's a lot of similarities between wage and salary earners and farmers in today's market, but the difference is one is protected and the other one is not, and that's why, I think, to give a good example or analogy, if you wanted to understand the situation farmers are in, trying to bargain a fair price would be like deregulating the award wage system and the wages market in Australia, and then for employees effectively to have two employers controlling 80 per cent of the jobs, if you like, and having to go individually to bargain a fair price or your wages. So I'd like to make that point, if you could take that on board.

Just getting back to NCP itself, one of the issues I think which probably could be addressed: the public benefit test as I understand it at the moment is very undefined. To keep any kind of regulation, you've got to demonstrate a net public benefit, and at the moment to do that, particularly with agriculture, I believe you have to demonstrate a net public benefit to, say, all of Western Australia or all of Australia, if you like, for the whole market. I think that probably should be restricted a little bit so that it was actually brought back to the rural and regional area - whether regulation was looking after those suppliers. If you could prove a net public benefit to that rural and regional community, then it would get the tick, if you like, rather than having to go to the extreme of trying to demonstrate that public benefit on a much wider scale.

I suppose in summary I'd see NCP in relation to primary producers as very much too focused on the economic benefits, if you like, and not actually on the social impacts. I think that's coming through loud and clear in what you've heard today, as I said, particularly in rural and regional areas. I was commenting to somebody that I believe that the Goss government, Wayne Goss in Queensland, 10 or 15 years ago, actually had an overarching policy where any of the government regulation or whatever, before it actually got the tick of approval and was implemented, they looked at what impact it was first going to have on rural and regional Queensland.

I believe that would be a good policy initiative, if you like, for the federal government to take up; not only on NCP but on a lot of other things: before you do anything, what impact is it going to have on rural and regional Australia? I think that would be a very positive thing. That difference is - I suppose, I'd like to make the point - if there's some fallout from NCP in a metropolitan area and businesses going broke or whatever like that, it can be absorbed - there are plenty of other options, if you like, plenty of jobs there - whereas if it happens in a rural and regional community, like dairy or fruit, vegetables, whatever it might be, it can have a dramatic impact on the social make-up of that community, and that's the last thing I believe that everyone wants across Australia.

Just very quickly on deregulation of trading hours, that's another issue which at

first thought - as I mentioned earlier, do we want to pay tax? Everyone will say yes. I think trading hours are exactly the same sort of question, and I think the question which will now be asked at the referendum is probably making people think a little bit more about what the benefits might be on our quality of life. So I think that's a bit of a positive. But from my point of view, as I mentioned earlier, nationally, Coles and Woolies have supposedly got 80 per cent market share. They've only got 60 per cent in WA. Deregulation of shopping hours in Western Australia will take that straight up to 80 per cent as well.

That will be at the expense of a number of small businesses and, as I said, primary producers are in the invidious position now of not actually having enough competition, if you like, enough buyers for their product competing at the same time. All that will do is just take less buyers out of the marketplace and give more market power to Coles and Woolworths to exploit that inherent price-taking weakness. So I suppose from a supplier point of view, with my supplier add-on, that's a bad thing.

It may be a little bit different if that's obviously in the food side of things. If you look at perhaps whitegoods, the impacts on suppliers: well, who are the suppliers to Harvey Norman, for argument's sake? There are obviously whitegoods manufacturers overseas in China or Indonesia. It certainly won't have an impact on Australia, but when it comes to food retailing, increased market share to the two major retailers will have a deleterious effect on primary producers even more so.

Very quickly, again, I think the two elderly gentlemen who presented just before lunch, as well: Western Power is another one of those issues of the power market in Western Australia. Because we are so isolated, we haven't got too many other options there. It was quite well put, the fact that the power infrastructure in Western Australia - I think governments of all political persuasions in the past, it's been a cash cow; it's been milked with very little money put back into infrastructure. That's the situation we've now got in WA where just about all the infrastructure needs replacing, but it needs upgrading as well for the future.

I'm personally strongly opposed to NCP being applied to that because the minute that, if you like, government is taken out of the loop in regard to delivery of essential services like power and telecommunications, and it gets in the hands of private companies, they won't go spending money on infrastructure unless they're going to get a return on investment. As a result of that, your level of service delivery will be directly related to the population density of where you live and, of course, if you come from a country area like myself, that's a huge worry. You're probably hearing the same argument about Telstra, the debate that's going on at the moment.

From my point of view, essential services need to be treated separately. I've got a strong belief that government has a responsibility to all of the people, regardless of where they live; whereas, as soon as it comes into private hands or

public listed companies, they've got to deliver for their shareholders and, as I said, you don't go spending money where you don't get a return on investment. I think you can talk about legislating and leaving public service obligations, if you like, but the reality is you can't make public listed companies do things where they're going to lose money. They'll drag their feet and do everything they possibly can to avoid it.

Probably Epic Energy with the gas pipeline in WA was another situation there as well. They just couldn't keep going and once they've gone into receivership and new owners come in as well, those sort of government requirements, or the strings which may have been attached, are probably more or less severed. So that's probably fairly wide-ranging anyway.

MR BANKS: I think you've made some very good points in a short period of time. I've got just a couple of questions and I suppose one comment, and that was I think you'll find in our report some support for your view that net public benefit means actually looking at some of the social and regional impacts at the front of a process, rather than after the event. I suppose a question for you is how local that kind of investigation should be and, indeed, whether your comment about needing to have a demonstrated net benefit, how local that test is as well? You could imagine a situation in which, potentially, a small group could hold the rest of the country to ransom, in principle anyway.

MR DILLEY: That's right. Sure.

MR BANKS: Do you have any thoughts on that?

MR DILLEY: You've got to try and find a balance in there, if you like. Use the dairy industry for example, the major sort of dairy producing areas through Harvey and Brunswick and Waroona, down the coast towards Bunbury and Busselton as well. You would define it to those rural communities there; what impact it would actually have. I take your point, Gary: you certainly wouldn't want to go - having it where you could hold it for ransom. So I think you would find a balance there, but as far as actually trying to demonstrate a net public benefit right across Western Australia for consumers in Perth as well as those dairy producing communities, it's just very, very difficult.

I know the gentleman who couldn't be here today, but from the Potato Growers Association here in WA, they've got the same situation where they currently have some regulation there which is obviously very good; it gives farmers the ability, I suppose, through Western Potatoes, to effectively do the negotiating with Coles and Woolworths, and there is not a problem there. I bet my farm on it that if the Potato Marketing Act was deregulated in Western Australia, there would be exactly the same fallout as what has happened here with the dairy industry because of the fact that there are just not enough buyers out there. The buyers that are there have got too

much market power.

Okay, we can't wind that back. You heard this morning where the US, they've got a cap of 18 per cent so no-one can get any more market share than that. It'd be a pretty brave federal government to suggest that, okay, Coles and Woolworths have to start divesting assets and market share to go back to that level. But I think you probably can draw a line in the sand, which I believe needs to happen now.

MR WEICKHARDT: I'd be interested to read your Nuffield report. I guess I, as you were speaking, was wondering if you looked at the progression through the value chain. I'd be interested to see where that value has migrated to. I can anticipate that one of the things that's occurred is that, as prices have been either held down or have gone down, the size of the agricultural producer has had to go up and therefore there has been probably much greater transport costs in things. I know that when I buy rockmelon or cantaloupe in a shop in Melbourne, it has come from Kununurra. I can anticipate that some of those costs have actually expanded significantly because the benefit of scale of growing those en masse in a certain area has gone up. I wouldn't have thought that there would be more middle people in the equation than there were before.

MR DILLEY: No, there's certainly not. My report doesn't go into that level of detail either, Philip. The Price Determination in the Australian Food Industry is an outstanding report because that goes into that kind of detail as well. In their conclusions they don't really spell out the reason for the actual reducing percentage of the retail price; they just allude to the fact that, okay, primary producers are the only price-taker, everyone else is service providers. As I said, they're covering their costs and putting their margin on as well, which is fair enough, everyone's in there to make a dollar as well. I see that dole march, which is working its way backwards, is having a major impact.

MR WEICKHARDT: It probably won't make you feel any better at all, but I can tell you from the industry I came from, there were lots of products where we were price-takers that weren't in your list of three. Selling fertilisers to farmers is one classic example, where there is a world price for fertilisers and, if you don't meet it, then - - -

MR DILLEY: Those bulk commodity products. Yes, I can see that.

MR BANKS: That's where the farmers actually benefit, in one case anyway.

MR DILLEY: That's right. Yes, some of that input cost for sure.

MR WEICKHARDT: Unless there is anti-dumping placed on fertilisers, which is another issue. Thanks very much.

MR BANKS: Thank you very much for that. I appreciate you appearing.

MR DILLEY: Thanks very much.

MR BANKS: Our next participants are Julian O'Brien and - - -

MR PITSIKAS: Terry Pitsikas.

MR BANKS: Thank you very much for attending. You provided a wealth of material in the submission. As I said, perhaps you might like to draw together the main points that come out of it, and we can react to those. Thank you.

DR O'BRIEN: First of all, I come here as president of the Implant Society and as a clinician. I'm not versed in the grand national economics of dentistry, but I think what I would like to say is perhaps best summed up in a preamble in a book by Iain Bamforth called A Literary Anthology of Modern Medicine. He spoke about Chesterton, who was a mercurial journalist and a brilliant polemicist. He was writing when fascist Italy was recommending corporatism as a political philosophy. He went on to say:

Public health, with its absurd notions of personhood and justice, is influenced by a trend, the contemptuous attitude towards the individual case. Suffice to say -

says Bamforth -

that a perfect society, a healthy Utopia, in which medical problems have been addressed, is incompatible with one in which people have moral relationships.

He then quotes Chesterton in his book, The Medical Mistake - What's Wrong With The World, in 1910:

Chesterton said, "I maintain, therefore, that the common sociological method is quite useless. The only way to discuss social evil is to get at once to the social ideal. We can all see the national madness, but what is national sanity? I have called this book What's Wrong With The World and the upshot of the title can be clearly stated. What is wrong is that we do not ask what is right."

In dentistry in Western Australia I don't believe that question has been asked; what is right? I maintain that we have probably the best dental delivery system in Australia. We are well below world fees for many procedures. The dentists are struggling. We are in heavy competition. Between West Perth, which is kind of the Collins Street end, and Fremantle there are 40 dentists. The competition is very steep, as it has been since 1894, based on quality not on price. Every patient that a dentist has in his database is highly fought for by quality and caring.

We have people, such as Graeme Samuel, who have been on radio bagging dentists with erroneous accusations that, for example, because the practice is owned by the dentist and his wife and his children, quality is somehow controlled by the children, a preposterous furphy which has no relevance to my clinical practice. Also, Graeme Samuel's address to the World Bank concerns me greatly. He spoke of the blueprint to create a third purchaser to interpose between the doctor/patient relationship. I believe that this is not in the long-term interests of patients. I quote an example of the gold that I use in a crown, which is 87 per cent gold, 12 per cent platinum. This costs just under \$30 a gram, yet there are cheaper nickel alloys which contain nickel, which has a suspect chemical and immunological potential for toxicity, and the cost of that is about \$2 a gram.

If we're going to make price the arbiter of a good dentist, it behoves anyone to prove that the consumer can discriminate between an 87 per cent gold crown and a high-nickel crown. They can't. Even if the dentist said, "Oh, this is 87 per cent gold," they still can't. They can't go off and have it tested or - - -

MR PITSIKAS: If I could make a comment there, one of the issues that we find as a profession is that the issue of asymmetry of knowledge keeps getting thrown back at us. The reality of life, unfortunately, is that that asymmetry of knowledge will always exist. No matter how much you read or pick up from the Internet - and this is one of the issues we have at the moment in dentistry and medicine; people are self-diagnosing themselves because they've read it on the Internet and they come in and tell us what their problem is. Unfortunately, they're hardly ever right. This asymmetry of knowledge will continue forever, in my opinion, as far as the professions are concerned.

I think one of the pertinent things - and I'll go into some specifics in the publication that I received - issues on ownership is probably one of the critical things. The Wilkinson report, which admittedly was basically based on the pharmaceutical area and pharmacies, was quite strong in that ownership should remain with pharmacists. One of the problems we're finding is that with corporate ownership of practices, in my opinion, the goals of the national competition policy reform was to increase competition with some sort of public benefit.

There's no public benefit that's perceived or even shown anywhere with corporate ownership of practices, which is what has become a big issue at the moment. There has been no evidence anywhere that there has been any reduction in fees to any patients. There have been no improved services; in fact, probably the opposite, there have been reduced services to members of the public. What corporations have done is tended to concentrate into bigger buildings, buying up all regional practices and putting them all into one building

So the elderly who used to be used to going just down the road to see their

local doctor or their local dentist can no longer do that and now have to go to the corporate centre. The rural and remote areas is a very big issue in Western Australia, and I speak only as a person who grew up in the country; I practised in Bridgetown in Western Australia and I worked for the government in metropolitan clinics and in the government clinics in the country districts. One of the problems that we have with rural and remote dentistry is we can't attract dentists to go to the country. With corporate ownership, there is no incentive for them to move to a country town unless it's big enough to have a corporate advantage, and the corporate advantage is profit. They're just being purely profit driven.

The way dental ownership has progressed in country practices in particular, and also in the metropolitan area, is that the principal runs the practice. He takes a younger dentist on with a view to him taking over that practice. In the country, it has become incredibly difficult now to attract dentists into those country practices. In my practice in Bridgetown, which is quite a big country town, it was incredibly difficult to attract a young dentist to come and join me because the fear was that they wouldn't have a job to come back to in the metropolitan area when they'd had enough of the country, because the corporations were taking over these practices.

There are significant areas where deregulation on ownership, I think, is creating other problems. One of the things we have in the metropolitan area is a metropolitan dental patient subsidy scheme, which is a government-sponsored scheme, where private practices are invited - it's not compulsory - to join the scheme, where you do services at a reduced fee to the patient. Corporations are not interested in that because it affects their bottom line. I've got some newspaper clippings, which I'm quite happy to leave with you, if you like; about 40 pages of newspaper clippings, with quotes from corporations. They are, not surprisingly, always in the financial pages, and all they're interested in is profits - what their bottom line is, returns to their directors have been; buying \$9 million mansions in Nedlands and things like this - which to me indicates that there is no public benefit coming out of this corporate ownership.

The other issue that I find very difficult to comprehend is this preferred provider type of relationships that have been allowed to be set up by health funds. It has not been a significant thing in Western Australia until recently, where one of the health funds here - HBF, which has 72 per cent of the market in Western Australia - is now looking at implementing its own preferred provider. They like to call it a participating provider scheme, but the reality of it is that they have the choice to choose who will be the participants so it really is a preferred provider scheme. Again, it's just an outright control, or attempt to control the fees, but there won't be any benefit to the patients as such because they're not changing any of their parameters, the parameters being what the rebate is and the annual limits.

So I think it has stayed the same, and there will be no real benefit to the

patients. If practitioners in this state don't participate, then you'll have a problem where those that do, their patients will get a much higher rebate; those that don't their patients get a lesser rebate. To me, that's lessening competition; that's not increasing competition. It's actually taking competition to the other extreme. In the report here, there was a quote from one of the COAG people which stated that exact point: that some of these competition reforms have actually gone the wrong way. Instead of increasing competition, they are now reducing competition.

In my opinion, the most competitive format you'll ever have is one dentist, one practice. That's the most competitive it gets. The moment you allow people to own more than one practice, you start to reduce competition. When you allow a group to own 100 practices, to me I can't see how that's increasing competition. It's gone the opposite way. They're some of the issues. Unless Julian has some more comments, I have some specific ones out of this discussion draft that I wouldn't mind raising.

MR BANKS: Perhaps we'll go back to any further comments you wanted to make.

DR O'BRIEN: The history of insurance companies in America in medicine and dentistry is quite clear: by adding that extra tier, it does not reduce the prices to consumers. It warps the market. It results in a drop of quality and insistence on - they call them - favoured nation clauses, et cetera, meaning that you won't charge anybody more than what you've charged our people. It means that then you have to charge everybody that same fee in order to maintain your profile. As I said in my article, for a lot of these insurance companies, it's as if they're on top of a high-rise building looking at the MCG scoreboard: they can't see the players; they can only see the scoreboard; they can't see the happy crowd, and they think they know what is going on. It just isn't plausible. That's the erroneous thing.

The other thing I've read about international insurance money is that government regulators in America have become quite stringent in the regulation of hospitals and health care, and that money is moving out of America and looking for other places to go, such as ancillary occupations of pharmacy, dentistry, et cetera. I believe there's a worldwide, if not conspiracy, an awareness; that if we break down government regulations, we can move in. We don't have to sell hamburgers; we'll go into Third World countries or other countries and take over the provision of health, and perhaps to make 10 per cent on bypass surgery is better than selling hamburgers.

Some of the research I've done discloses that in some organisations in Australia there are networks of people who have been involved in the American health industry and are now working here. They're cashed-up, they've got links to Malaysia. The other thing I did research on was that American crime bosses are moving into health and health insurance because it's more lucrative. I think some of the economists addressing these venture capitalists are talking about huge profits to be made out of health.

I'm happy to open my tax records for the last 30 years. I have not made a lot of money out of dentistry. I've struggled. I'm taxed as a sole taxpayer. I have no corporate advantage. I couldn't split money to my wife or my kids, as a farmer or someone owning a milk bar could. I was a sole trader. So it isn't beer and skittles, and there's been no assessment of our lot and our excellence in spite of those things. We're not complaining about them, but I just don't think it's plausible to add another layer of executives and accountants and lawyers and think that it's going to be cheaper. How could it be cheaper?

We're already under international fees, dramatically. We're lower here than we are on the east coast. The other thing that kind of was an indictment about the American health system was that some of these insurance companies that were buying hospitals and selling policies to people were keeping people in hospital longer and they were paying bounty hunters to go out and get heads on beds. That's what was happening.

In WA we've got a similar draconian flexing of the Goliath muscle, as HBF attempts to conscript dentists into what I believe to be a very unfair thing, where they're saying, "Reduce your fees to June; no fee increases in the rebate or in your fee or co-payment to the patient until we say so." That seems to me grossly unfair; nor is there any opportunity for due process in relation to profiling. You've been rejected; they write to all your patients; there's no reason given but by implication you might have been delinquent in some way. This corporate power is uncaring and it will distort.

Once you embitter the providers that have had ethical principles and, I should say, that feeling of being called to something higher - once that's lost, and corporatism will do that, when we have Graeme Samuel saying to the World Bank that the provider contracts must be stringent, and then we have to go and appeal to Graeme Samuel to seek permission to collectively bargain, not about price but about something as essential as due process - that HBF will run a star chamber where if they say, "Well, your fee on a crown is over profile," you can't get access to what they consider to be the normal profile. You can't appeal your case. This is corporate totalitarianism and it's not in the patient's interest, because it will shift and warp the providers' ethos.

MR PITSIKAS: Perhaps if I could make one more comment on those lines, which is not occurring in Western Australia, to my knowledge, but I do know it occurs in New South Wales, where you have health funds that actually own dental clinics, and I'm not sure that it's not a conflict of interest where you have an insurer actually providing the service to the patients. To me, I think there is a very definite conflict of interest there. It's an issue that's not been challenged, in my opinion, in the manner that it should be challenged.

MR BANKS: The problem there is potentially one of underservicing. Is that what you're talking about?

MR PITSIKAS: Exactly, yes. I mean, there is no benefit to the patient for them to put the most expensive treatments and the best treatments, when the insurer is looking at maintaining costs. This move that's occurring recently with preferred providers is not particularly new. It's been going on in the eastern states for some time and Medibank Private moved into Western Australia about three years ago with preferred provider type schemes. There's no doubt it's about controlling costs as an insurer. It's nothing to do with the benefits to patients or the quality of the treatment for the patients. There are no parameters within their agreements regarding quality of treatment to the patient.

One of the issues that's not being considered, in my opinion, and enough detail given to it, is the cost of retreatments. An issue that Medicare started to look at very significantly recently is the cost of readmissions. One of the trends at the moment is to get them into hospital and get them out as fast as possible. They have a certain parameter. It might be four days. If they are readmitted within four days, it's considered to be the same course of treatment. Conveniently, if they get admitted under four days, it's not a problem. If they get admitted after four days, it's a blot on that surgeon's name. So there are some issues that I think aren't being addressed in a real and honest manner to the benefit of the patient.

If I could make some specific observations that I've made in this report, on page 75, where it talks about the professions and occupations, one of the things that I find a little difficult to get on top of is that there are a lot of deregulated areas already within the professions. There are no restrictions on our hours or fees or whatever. You charge what you want to charge, you work whatever hours you want to work. If you want to work 15 hours a day, then that's your prerogative. If you only want to work three, that's again your prerogative. In Western Australia there has never been a regulated fee, and practitioners make up their own fee and they reflect whatever the supply and demand is in their particular area.

One of the points that I think needs to be made is that, where dentistry differs from a lot of these other services that we're looking at deregulating, dentistry continually has irreversible and invasive procedures. A lot of the things that are done in dentistry unfortunately can't be reversed. I just find it a little galling that they compare us with someone who's manufacturing a part for a gearbox. If it doesn't fit, well, you go down to the workshop and get another part and we can fit it. The reality of it is, if you stuff up in dentistry the person may lose the tooth and you will bear the consequences of that through a lawsuit, if you've done something drastically wrong. There are controlling issues there.

One of the things I've found interesting is that in this one they talk about medical practitioners being able to do some foot treatments. I would put it to you that medical practitioners are trained - and it's within their scope of competencies - to do those sorts of treatments. We have a similar scenario in dentistry, where we have prosthetists who basically are technicians who have done a part-time course, usually six months, to construct and fit dentures direct to the patients. They are now wanting to do bleaching and snore guards and occlusal splints and partial dentures, implant-retained prostheses.

The reality is that unfortunately they simply haven't had the training. Yet under competition law there is increasing pressure for regulatory bodies to cave in and allow prosthetists to do these lesser services. I would go so far as to say that if someone had the view that a medical practitioner couldn't do a foot treatment, then there's really a warped view as to what a professional medico or dentist should do and can do, as compared to those who are lesser trained.

DR O'BRIEN: I've got a nice little quote about corporate medicine from a Congressman Ron Paul of Texas, in 1999. He said, "The power of special interests influencing government policy has brought us this managed care monster." That's what I believe we are going to be inflicted with by HBF. As a practitioner, HBF are intent on stampeding our patients: If you don't join - the inducement to go somewhere else is \$300, say, on a crown, or if they go to someone else they get \$600 back. I don't think that's fair. It's discrimination. It's against the Health Act. It's against the community rating principle that says there shouldn't be discrimination in quantum or rebates. And they are doing that. Under section 57 - I think it's in my submission. They are discriminating against classes of patients in complete defiance of the act.

MR BANKS: Sorry. Explain to me again why they are discriminating against classes of people?

DR O'BRIEN: They are saying, "You are going to Dr Pitsikas; he's a member. You will get \$600 back on a crown. But your sister, she is with Dr O'Brien. He is not participating for that same service; you will only get \$300 back."

MR WEICKHARDT: And to offer the \$600 they have done some deal with Dr Pitsikas that they control his fee.

DR O'BRIEN: They have tied his fee - - -

MR PITSIKAS: They have tied my fee into a fixed fee.

DR O'BRIEN: - - - into the future, into the Ooloo.

MR PITSIKAS: With no - - -

DR O'BRIEN: No right to - - -

MR PITSIKAS: The right to review is that they will send an independent - in their terms - an independent person out to assess the costs in your practice and then if HBF has the ability to make an increased payment it will be looked at. So the out clause there is for the health fund to say, "Well, look, we agree that costs have increased by 10 per cent but I'm sorry, we just can't afford to pay you any more."

DR O'BRIEN: So the rebates freeze and any patient co-payment is frozen until they say so.

MR WEICKHARDT: Did they agree that fee with you, individually, or do they agree there was some - - -

MR PITSIKAS: The way they have done it, or the way they are proposing to do it, is that they have done a profile based on the fees that you have charged in the preceding financial year, so ending on 30 June 2004. The problem is that most practitioners probably increase their fees either on 1 July or 1 January. That would be when most people would, I think, do their reviews and usually implementing them in early January, early February or mid-July. So no-one has had the option of any increased fees being taken into that profile that they have done and with no scope for review.

MR WEICKHARDT: But they agree that fee with you as an individual and they might agree a different fee for the same procedure with your colleague down the road.

DR O'BRIEN: Yes.

MR PITSIKAS: As long as you fall underneath their benchmark fee. They will have a cut-off where, if you exceed that, they are not going to accept you at all and you will just get a very, very low rebate. What they are planning to do is to increase the rebates to the patients of the dentists that sign this agreement. Those that don't sign the agreement will get a much lesser rebate. The other thing that has happened is that it doesn't cover all of the services that dentists can provide. If you hadn't done that particular service in that period that they have built your profile up on, then there is no rebate for that procedure. So you need to get authorisation from the health fund before you can do that service on the patient and negotiate what the fee and the rebate is likely to be.

On the surface that might sound as though it could work, but we also see a lot of patients after hours. We also see a lot of patients, as emergency type treatments,

on the weekends. You are not going to be able to assess this. Modern practice philosophy, love it or hate it, is that most people now demand payment on the day of the procedure. So you are going to have some real problems. If you charge outside of this fee profile, the health fund has the right to say to you that you are no longer a participating provider because you have charged a member outside of the agreed fee schedule. I don't see how this is increasing competition. If anything, I think it's going the other way.

MR BANKS: I suppose the end point of competition is, on one interpretation, benefit to the consumer. You don't see any benefits to the consumer coming through this?

MR PITSIKAS: I think the consumer is going to miss out in a very big way, in that they are not going to be able to have their choice of provider. If you have been seeing me as a patient for 20 years, then all of a sudden Julian is now a participating provider and I'm not, you will have a punitive rebate, you will have a reduced rebate if you continue to see me, as against seeing a participating provider.

So you as a patient now have lost a lot of your rights as to choosing your provider, your dentist, and that's something that the public of Western Australia have enjoyed for a very, very long time. We've seen it sneak into medicine and it's very much a US style managed care type concept, where you get prior approvals, you get a list of doctors if you're lucky or a doctor you're allowed to go to, and I don't see a lot of public benefits there. In the short term, there may be some public benefit in that the out-of-pocket expense to the patient may be reduced or fixed for a little period of time but the reality of it is that if the practitioners are going to try and maintain their normal income, either the quality of the service will have to drop, they'll have to do it in a shorter period of time - this is exactly what has happened in the UK with the National Health Scheme.

Speak to any dentist honestly about the National Health Scheme in the UK and it's renowned worldwide as being a notoriously poor-quality service to the patients, so much so that it's basically being disbanded now. If it's not that way, it will be in using lesser quality materials. People are going to have to do something to reduce their costs and whilst there might be a very short-term benefit to patients, I think long term they're going to be significantly worse off.

DR O'BRIEN: Graeme Samuel said to the World Bank that in some countries professional regulation has been left in the hands of the profession which is essentially what has happened here. All dentist regulation by the Dental Board has been funded by dentists. It has cost the taxpayer nothing. He says:

This has an unsurprising tendency to lead to the proliferation of anticompetitive provisions -

I don't see any -

often masquerading under the guise of ethical or professional conduct rules.

I don't see anything that's anticompetitive here. And:

A careful consideration of the degree to which this notion of professional independence can be reconciled with the development of a competitive market is therefore essential.

I mean, it's just not true. He then goes on to say about the third party coming in as a purchasing thing. The purchasing function is clearly one that must be capable of being privatised, with incentives going down this path, including the removal of additional risk factors from government and the provision of the clearest possible separation between the funder - who would be HBF, presumably - and the purchaser role.

The important role for government is to ensure that health care providers are engaged under stringent and robust contractual arrangements.

This is the person that has got so many things wrong in relation to dentistry and to whom we may have to appeal in order to be relieved of some of the stupidities of this contract arrangement that they've pulled like a rabbit out of the hat 15 days before Christmas.

MR WEICKHARDT: You mentioned in Western Australia that HBF have a very high market share.

MR PITSIKAS: 72 per cent.

MR WEICKHARDT: 72 per cent. In the east coast I assume their market share is much lower than that.

MR PITSIKAS: HBF have very little market share in the eastern states. It's a unique situation in Western Australia. In the eastern states, there will be four or five health funds with around 25 to 30 per cent sort of market share. They're sort of very competitive in the eastern states. They run between 17 and 25 or 26 per cent. I think Medibank Private is by far the biggest health fund on the eastern seaboard. In Western Australia, Medibank Private has about 16 per cent of the market here. HBF has 72 per cent of the market. HIF is the next biggest one here, somewhere around 3 to 5 per cent of the market, and all the rest, the National Mutuals, the BUPA, MBF, et cetera, which are all available on the eastern seaboard, would probably share the

other 3 or 4 per cent between them.

MR WEICKHARDT: And have any of these tendencies to behave in the same way as MBF are doing here with dentistry and preferred providers started to occur in the east too, or not?

MR PITSIKAS: It has been occurring in the east for quite some time. The Australian Dental Association, the federal body, has put a submission in to the Productivity Commission with that being mentioned in there and there are also some issues on ownership that they've mentioned and a couple of other issues that they raised. I wasn't involved in the actual submission itself. I was a federal councillor at the time that submission was put together and I had some input into it but I'm no longer on the federal council. South Australia is probably one of the states that has been most affected by this preferred provider scheme because every health fund there basically has them. The problem is that they're not the same fee schedule so if you've got 27 different health funds in Western Australia, you're going to have to have 27 different fee schedules and you're going to have to identify which fund that patient belongs to.

If I could have \$1000 for every time I have a male patient particularly that comes in and you ask them which health fund they're in, they'll say, "Jeez, I don't know. My wife does all that stuff. I'm in one of them." If you're going to have to get prior approvals every time you're going to treat these people, the administrative costs are just going to blow out. I mean, I'm involved in quite a big practice. I have several partners and we have four different locations so, you know, you're going to have an issue.

In this one health fund, with HBF - I'll use that as an example - we have 15 different fee profiles. My profiles at each practice are not exactly the same. I charge the same fees at each patient, but according to their profiles, they're different. So with my partners and associates that I have, we have 15 different fee schedules with nothing being identical and the administration side of that is just not feasible. I would have to employ another person full-time in the reception staff - so maybe there is a benefit there from an employment point of view - but it's not the benefit they were aiming for to manage the scheme.

MR WEICKHARDT: I assume, at least in the medical area, the Medicare agreed fee is not set practitioner by practitioner.

MR PITSIKAS: No.

MR WEICKHARDT: It's set for a given procedure.

MR PITSIKAS: Exactly, and that's something you can work with. I mean, the

Department of Veterans Affairs has a set fee schedule to treasury scale of fees, and again it's voluntary whether you want to participate in that scheme, and most practitioners do because they have some sort of moral obligation to the diggers and returned soldiers and so forth, and I think it would be fair to say that nearly all dentists do participate in that scheme. But it's an insignificant part of your practice. This is a different issue, where you're talking - Prof Spencer from the Australian institute in South Australia, has done statistical analyses and I think he came up with some figures like - something like 68 - I'm not sure if it was 68 or 78 per cent of patients who go to private practices have some form of private health insurance. If you've got 72 per cent of that, that's a fair chunk of practices that have been affected.

One of the issues I really wanted to go on was, on page 84 we talk about community service obligations. One of the issues there was - again heading towards the change in ownership - there has not been any change in resolving the rural medical and dental situation by having change of ownership of practices. This is a significant problem in Western Australia and it's also a big factor in New South Wales and also Queensland, the biggest states; it's not such a big problem in Victoria.

DR O'BRIEN: The deregulation can also - I wouldn't want to go and work in a country town where there was a prosthetist and a girl working at a fingernail clinic doing scales and cleans because the national competition ideology said it was a good idea for these delegated auxiliaries to be working as independent practitioners. I wouldn't want to go there, so it actually would be against country and rural people's interests that they have these quasi-trained independent practitioners. One hygienist I believe on the east coast is working - there's a spa cleaning place, so you can go and have a spa and have your teeth cleaned. I mean, every job can be broken down into its composite parts, and you could say, "Well, we'll give that to this lot" - and what's left for the person to do.

MR PITSIKAS: The government's solution to this problem has been to allow lesser qualified medicos and dentists to practise in remote areas and into a - well, they're allowed a two or three-year period in which to practise, then they sit their ADC examinations, and if they pass they might then get registration. But what we're creating is a two-tier level of service; the rural and remote and elderly people in particular are getting a lesser service. I don't see that that's a good benefit that's coming out of these policies.

DR O'BRIEN: One of the other things - - -

MR BANKS: Sorry, could we just break for one moment. I just wanted to check whether, sir, you were wanting to appear this afternoon.

MR DEMPSEY: If there's time.

MR BANKS: We have to conclude at 4 o'clock, partly because we've got to get a plane home, so if you want to appear - I think 15 minutes. Would that be appropriate?

MR DEMPSEY: Sure.

MR BANKS: If we could give you another 10 minutes, is that okay?

DR O'BRIEN: Yes.

MR PITSIKAS: Yes.

MR BANKS: Good. Okay.

DR O'BRIEN: One of the things Mr Samuel said in one of his deliveries was that competition amongst professions had been limited by various combinations: restrictions on advertising, restrictions on training places, the number and location of businesses and fee scales. Well, the ADA hasn't had a fee scale for how many years?

MR PITSIKAS: Never had one in Western Australia.

DR O'BRIEN: The whole furphy around advertising can be seen in the Yellow Pages, where what used to be single-entry columns is now 10 or 15 pages of glossy magazines. One dentist I know paid \$35,000 for an advertisement about as big as a playing card. I don't see that as contributing to better patient care and lower fees. I don't have a problem with a more liberal view on advertising, but I don't think we can kid ourselves that we're entering a higher realm of activity.

The other thing is that dentists have been lobbying governments in all states to increase the number of dentists. We're not conspiratorial about - and in my submission I said there have been many dentists who have worked at the dental school as honoraries in order to help the school because it was being starved of funds. So there's no conspiracy by dentists, and the beautiful thing and, I mean, the thing about - coming back to Chesterton, what's wrong is that we don't ask what's right.

The system that was set up in 1894 has worked beautifully for 110 years, and I'd further postulate that some of the bad dentistry that our parents and grandparents might have suffered may have been at the hands of people that weren't qualified. In my submission I mention there were a number of enrolled people who had picked it up through apprenticeship, et cetera, and they reserve the title of dentist, but these enrolled people set their business up and called it dental surgery. So it ain't broke, don't fix it.

The system we have here - I mean, I'm so proud to be a dentist and see the spirit and cooperation that exists amongst dentists around the minutiae of patient care, and not about money. I just can't see that corporations, whether they're insurance people or whether they're enslaved to an insurance company - I mean, one of the things in some of my research was that some of this offshore insurance money is going to come into Third World markets - they call them northern money, will come into the south and enslave the indigenous population in order to make grand profits, and I fear that there hasn't been any public debate about this, certainly in relation to dentistry. Is it in the patient's interest to have a purchaser, in the form of an insurance company? I don't think it is, and there should be a debate.

MR PITSIKAS: Could I perhaps just make three or four very quick comments, and one is just a rhetorical question. One is, what are the key factors for public interest tests for dentistry? One of the issues I find very difficult is determining just what is meant by "public interest" when we start looking at the national competition policy. I notice on page 115 one of the lessons from the NCP was:

An effective public interest test is essential to secure beneficial reform as well as community acceptance of the reform process.

The difficulty I have is, what is the public interest test for dentistry? There is no definition, there are no defining areas anywhere that I've been able to see in any of my readings on the NCP regarding that, and I think that's what is creating a fairly big problem within the profession itself from that point of view.

The other point I'd like to make is that we have an ageing population and the complexity of treatments for ageing people becomes more complicated and more difficult, the asymmetry of knowledge will become greater, and what we should be endeavouring to do is increase the training, not decrease the level of training who deliver dentistry to these people. There are significant complications now with the types of medications that doctors put elderly people on to keep them alive, that have significant side-effects and sometimes stop you from carrying out some of your dental services. Allowing lesser qualified people to carry out invasive and irreversible procedures on these people is heading for a disaster. Everyone seems to be skirting that issue; no-one really wants to address it. It is a significant issue and unfortunately it's going to take John Howard's grandfather to die from something like this before someone thinks, "Well, gee, we'd better have a good look at this."

DR O'BRIEN: One of the things in my submission: I said the litmus test for any change in dentistry should be, "Is this going to aid the good dentist or is it going to allow the bad dentist to appear to be the good guy?" There was a book written years ago by a dentist who used the pseudonym Paul Revere, and he said, "Dr Good ran late sometimes. His fees were more expensive than Dr Bad. Sometimes he hurt," et cetera. "Dr Bad never drilled too far, he left the decay. He made a lot of money

because he was quick," et cetera.

Everything is pitted against being good. It's a very fine line, and you can't distort the system so that someone - I mean, it would be like a nun being a nun Monday and Tuesday and then on Wednesday they're a prostitute. You can't cause somebody to walk their delivery when they're - because this patient is insured or that one isn't or, "We'll drop the fee here," or, "We'll do a short cut because we're not getting paid as much." It shouldn't work like that. You can't change hats. You can't be holy and then be wild in that sense.

MR BANKS: That's a fairly colourful way to conclude. I'll give you the opportunity perhaps if you wanted to make - - -

MR PITSIKAS: The only thing I wanted to say was that I put a submission in just before the 17 December deadline, specifically pertaining to the HBF issue. Is it possible to make more comments regarding this discussion draft?

MR BANKS: Yes.

MR PITSIKAS: Is it too late to put a further submission?

MR BANKS: No, it's not. If you could get something into us by Christmas, which isn't far away, or by the end of the year - - -

MR PITSIKAS: That would be great.

MR BANKS: It can be quite brief, and we'll look at it.

MR PITSIKAS: I have some specific issues relating particularly to the discussion draft, which I think I would like to perhaps put in writing rather than carry on discussing - - -

MR BANKS: You're welcome to do that. If it comes later, it just means we have less time to look at it, that's all, because we've got a deadline.

MR PITSIKAS: Sure. No, you'll get it before Christmas.

MR BANKS: All right. Thank you very much.

MR BANKS: Our final participant today comes from the WA Retailers Association Inc. Can I welcome you to the hearings and ask you please to give your name and position.

MR DEMPSEY: Sure. It's Martin Dempsey. I'm the chief executive officer of the WA Retailers Association.

MR BANKS: Good. Well, thank you very much. You were in the audience earlier on.

MR DEMPSEY: Yes.

MR BANKS: I'm sure you've got things to tell us so I'll hand over to you.

MR DEMPSEY: Yes. Initially I hadn't intended on making a formal submission. I thought my role might best have been served by supporting an earlier submission; that made by Nola Marino and Jenny from the Milk Industry Liaison Committee. But having heard a few things this morning I felt really honour bound to say that the things Nola in particular was saying are felt very, very strongly here in Western Australia.

It's not simply a matter of the east being best and the west being Luddite. It's more that there are a number of things about Western Australia that do make it different to the eastern states. It's particularly evident in the retail sector. I'll just outline a few of the numbers and then demonstrate hopefully these links that Nola was getting to which - frankly there just hasn't been the research that's been required to demonstrate the value of each of these interdependent parts; hence why I felt a need to actually make a submission, and admittedly not one with a lot of notice but here it is.

The situation here in WA from the last census in 2001 was that all of the majors in retail combined employ 30,000 here in WA. At that same time it was also confirmed that the independent retailing sector, not including primary producers, employs 90,000 here in WA. Since that time the numbers employed by the majors have increased to about 32,000. At the same deadline the numbers employed by the independent retailing sector are about 120,000. In other words there has definitely been growth in the independent retailing sector in terms of employment.

It is, however, necessary to get behind the scenes - to scratch deeper - because I heard earlier the statistic that in fact in Victoria there had been more small businesses since deregulation, for example. This is starting to get to the root of the matter but the important thing is, what is going on? It's the throughput. The statistics, the level of research, have simply not been conducted on the throughput, for example, so that using sources such as ITPA figures on bankruptcy - it regularly shows across all

Australian states that the bankruptcy rate hovers just under about half a per cent.

One of your own publications, back in the year 2000 - an unpublished paper but one that I digested in an enormous amount of depth - said that that figure is in fact more like 6.5 per cent, and that bankruptcies only account for about 1.5 per cent. The rest are business closures and for a variety of reasons. It could be that the employer is sick and tired of not being able to pay themselves an award wage, for example, as they are required to do for their employees. It could be that the lifestyle of working 70 hours plus a week is simply not enough to sustain them in the work that they have elected to do, but have since found that it's more taxing and heavier on their family than they thought it would be, and so on and so forth.

To give it the retail focus that I can give - I've been a CEO now for - this is my sixth year - there are a number of other constraints that are just not given the level of recognition that they should have in the marketplace. For example, independent retailing is predominantly specialty shops. I cut across a number of the categories, hence I have independent grocers, newsagents, pharmacists - not just gift shops and hairdressers, for example.

At the specialty shop level, however, most of the majors have moved to a flat five-year lease. If they're not able to secure a new lease, that's it, end of story. If I can put that back into the context of the half a per cent bankruptcy, 6.5 per cent closure rate, including bankruptcy, the word at a grassroots level - from the coalface if you will, and promulgated largely by the media - is that 50 per cent of all small businesses fail in the first three years. 80 per cent fail in five. There is something remarkably wrong about this, gentlemen.

If you can have a range of half a per cent to 80 per cent from the annual figures to the five-yearly figures there is a great deal that obviously is not being taken into account. Hence Nola, from the Milk Liaison Committee - or Dairy WA as I sometimes refer to her as - is absolutely correct when she talks about a better understanding of the social impacts at a community level.

Let me go even further. Here in the Perth metropolitan area we have less than 10 major shopping centres, the super regionals as they're referred to - the Chatswoods from Sydney, for example. That sounds remarkable. The peak one here in WA is out at Cannington. They have just under 250 shops. It sounds remarkable. The total number of shopping centres here in the Perth metro area is 180. Like the numbers regarding the employment between the majors and the independent sector, it may be convenient to refer to the small business sector, but it's small and most numerous; by far and away the most numerous.

So the logic of that would determine that we move to understanding that small business sector - that independent retailing end if you will - a lot more deeply; in a

lot more depth and a lot more comprehensively. From the draft report:

And at no stage have we actually seen methodologically sound research conducted on the effect of deregulation.

I'm not just talking about the Robert Baker studies on supermarkets and the majors sort of moving to not competing head to head geographically. I'm talking about no study, let alone no longitudinal study - methodologically sound longitudinal study that's required for change of this magnitude.

Now, I do mention this because, yes, I have a research background. Yes, I know what is involved in getting research proposals up of this nature. Given the magnitude of the change, however, it is gobsmacking to think that this research has not been conducted and especially by a body such as your own, the Productivity Commission, who - I won't use the official terms but if I may put it in my own words - whose brief, I would contend, is to research and report in an independent fashion; in a dispassionate fashion, without fear or favour. Not to get involved in political arguments about economic rationalism, for example. Not to actually say, "This is good for you whether you care to admit or acknowledge it or not."

I do note with some considerable appreciation that I think for the first time southern WA is actually acknowledged as having suffered from the effects of deregulation. I guess we should celebrate that in fact that has occurred; that it has been acknowledged. But has it been acknowledged in the sense that Nola is talking about? I happen to know that she had yet another one of the local farmers attempt to commit suicide on Friday. These are small communities; very important communities. The multiplier effects of spending money locally - what are the numbers? Should bodies like mine be charged with knowing that information? I can tell you she was talking about up to \$6. I actually make it up to about \$8. But that's very important research.

We need bodies like your own. You're not the enemy. I openly say that. It might have seemed from some of my comments earlier that I was upset and angry, and certainly I was both of those things, but we need this information because otherwise it doesn't get out. It doesn't get a guernsey and that's not right. So hence when we hear about deregulation and how it's fine - you know, we're just being emotional and uptight about what happened in Sydney or in Victoria - we've got very good reason to have these feelings.

Who would have thought five years ago that Coles and Woolworths would have gone into the petrol retailing business? No-one would have given it a great deal of credence. Independent Liquor over here: within 18 months, Coles and Woolworths had 40 per cent of the market. That's not happenstance. That is not happenstance. The local hardware stores, local delis - we can't all be suffering from

the same delusion at the same time, gentlemen. It's logistically impossible to fool all of the people all of the time, if you will, and I'm not trying to be insulting when I put it that way.

Yes, there is a level of emotion because, yes, it's small but most numerous; not most numerous by a little bit; not 51 per cent - by a lot, by a huge margin. So for there to be this paucity, this lack of information, this lack of research, frankly does look like some sort of conspiracy. It does look like there's been a chumming up by big business to government to secure them what they could not have achieved otherwise, and I'm talking about the big businesses there, not the government.

I heard the comment that Wal-Mart, if it came here, would surely be an extra competitive pressure for Coles and Woolworths, for example. Well, perhaps, but more fundamentally they're coming here because there seems to be room for them to be able to do so in a deregulated/deregulating scenario. Personally, I think they'd actually be looking to buy rather than just to come in and purchase, because it's very difficult to come in and just start a big business. It's got to come from somewhere. Yes, I think we're all aware that the independent retailing sector has a significant market share, and it is that market share that's being targeted by the majors; not, as I said earlier, in a happenstance fashion, but in a highly organised, strategically organised fashion. It's not fluke. By no means is it fluke.

In the matter of trading hours, which I'm sure you've heard something about before you came here, for example, it is very, very difficult, in fact nigh on impossible, to buy any TV media, as we speak. You cannot, because the big ones have bought it all up. So if we're talking about a fair go, if we're talking about doing what's required, this is a process that's been in train since the Hilmer report and the initiation of the National Competition Council, which is not, as far as I'm aware, a body made up of elected officials in the same way as our politicians are, and it is our politicians that have the job of deciding our legislation and indeed our regulation, not an unaccountable, unelected body which doesn't have sunset clauses written into it or any grandfathering whatsoever. In fact, if this is the logic to pervade this argument, then perhaps it's true we should do away with a level of our government and just have bodies like the National Competition Council.

On trading hours - I'll conclude now, if I may - essentially the prospect of having large businesses spend large budgets on advertising and public relations to tell us how they're doing this in our best interests is trying it on with the Australian public, and certainly in terms of the West Australian public I believe it could very well backfire on them, in the same way as being told that something is good for us by people that we've rarely heard of before.

I have been at these hearings this morning; I've not met either of you before. I definitely appreciate the opportunity of getting to know you a little bit better, and the

whole team, if I may, but it's a bit rich, frankly, to say, "This is it. No like it; just lump it." That is an invitation for us to do more than say, "Thanks very much." Thank you.

MR BANKS: All right. Thank you very much. Right on time. That was a perfect delivery. I suppose what I should make clear is that we are only an advisory body. Governments don't have to listen to what we say and quite frequently don't listen to aspects of what we say. Our report is public and there is the opportunity to respond to what we say, and you've obviously taken advantage of that opportunity. We will be listening, and have been listening and reading submissions that have come in in response to this draft, and its purpose really has been to do that, to get reaction.

Hopefully we can take this on board and reflect it in our final report, which is due at the end of February. So thank you for participating. You also have the distinction of being the last participant in this series of hearings, and just for the record, I thank all participants who have appeared. We have found their contribution very helpful. As I said, we will be taking this on board in preparing a final report, which is due by the end of February. So with that, I close the hearings. Thank you.

AT 3.59 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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